BOUBYAN BANK K.S.C.P. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2024

BOUBYAN BANK K.S.C.P. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

For the year ended 31 December 2024

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Ernst & Young
Al Aiban, Al Osaimi & Partners
P.O. Box 74
Burj Alshaya, 16TH & 17TH Floor
Al Soor Street, Mirqab
Safat 13001, State of Kuwait

Tel: +965 2295 5000
Fax: +965 2245 6419
kuwait@kw.ey.com
https://www.ey.com

Deloitte & Touche
Al-Wazzan & Co.

Ahmed Al-Jaber Street, Sharq
Dar Al-Awadi Complex, Floors 7 & 9
P.O. Box 20174, Safat 13062
Kuwait

Tel : + 965 22408844, 22438060
Fax: + 965 22408855, 22452080
www.deloitte.com

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF BOUBYAN BANK K.S.C.P.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Boubyan Bank K.S.C.P (the "Bank") and its subsidiaries (together, "the Group"), which comprise the consolidated statement of financial position as at 31 December 2024, and the consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2024, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS Accounting Standards, as adopted by Central Bank of Kuwait ("CBK") for use by the State of Kuwait.

Basis for Opinion

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

Key Audit Matters

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

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF BOUBYAN BANK K.S.C.P. (continued)

Report on the Audit of the Consolidated Financial Statements (continued)

Key Audit Matters (continued)

We have identified the following key audit matter:

Credit losses on Islamic financing to customers
The recognition of credit losses on cash and non-cash Islamic financing ("credit facilities") to customers is the higher of Expected Credit Loss ("ECL") under International Financial Reporting Standard 9: Financial Instruments ("IFRS 9"), determined in accordance with the CBK guidelines, and the provision required by the CBK rules on classification of credit facilities and calculation of their provision (the "CBK rules") as disclosed in the accounting policies in Note 2 and Note 13 to the consolidated financial statements.

The measurement of ECL under IFRS 9, determined in accordance with CBK guidelines, is a complex accounting policy, which requires considerable judgement in its implementation. ECL is dependent on management's judgement in assessing significant increase in credit risk and classification of credit facilities into various stages; determining when a default has occurred, development of models for assessing the probability of default of customers and estimating cash flows from recovery procedures or realization of collateral.

Recognition of specific provision on impaired facility under the CBK rules is based on the instructions by CBK on the minimum provision to be recognized together with any additional provision to be recognised based on management estimate of expected cash flows related to that credit facility.

Due to the significance of credit facilities and the related estimation uncertainty and management's judgement in assessing significant increase in credit risk and classification of financing facilities into various stages, adjustments to ECL models, if any, this was considered as a key audit matter.

Our audit procedures included assessing the design and implementation of controls over the inputs and assumptions used by the Group in developing the models, its governance and review controls performed by the management in determining the stage classification and adequacy of credit losses.

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Report on the Audit of the Consolidated Financial Statements (continued)

Key Audit Matters (continued)

Credit losses on Islamic financing to customers (continued)

With respect to the ECL based on IFRS 9, determined in accordance with the CBK guidelines, we have selected samples of credit facilities outstanding as at the reporting date, which included rescheduled credit facilities, and evaluated the Group's determination of significant increase in credit risk and the resultant basis for classification of the credit facilities into various stages. We involved our specialists to review the Probability of Default ("PD"), Loss Given Default ("LGD") and Exposure at Default ("EAD") and the overlays, if any, considered by management, in order to determine ECL taking into consideration CBK guidelines. For a sample of credit facilities, we have computed the ECL including the eligibility and value of collateral considered in the ECL models used by the Group. We have also evaluated the various inputs and assumptions used by the Group's management to determine ECL.

Further, for the CBK rules provision requirements, we have assessed the criteria for determining whether there is a requirement to calculate any credit loss in accordance with the related regulations and, if required, it has been computed accordingly. For the samples selected, which included rescheduled credit facilities, we have verified whether all impairment events have been identified by the Group's management. For the selected samples which also included impaired credit facilities, we have assessed the valuation of collateral and checked the resultant provision calculations.

Other information included in the Annual Report of the Group for the year ended 31 December 2024

Management is responsible for the other information. Other information consists of the information included in Annual Report of the Group for the year ended 31 December 2024, other than the consolidated financial statements and our auditors' report thereon. We obtained the report of the Bank's Board of Directors, prior to the date of our auditors' report, and we expect to obtain the remaining sections of the Group's Annual Report for the year ended 31 December 2024 after the date of our auditors' report.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of other information; we are required to report that fact. We have nothing to report in this regard.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF BOUBYAN BANK K.S.C.P. (continued)

Report on the Audit of the Consolidated Financial Statements (continued)

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

Report on the Audit of the Consolidated Financial Statements (continued)

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)

- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the Group as a basis for forming an opinion on the group financial statements. We are responsible for the direction, supervision and review of the audit work performed for purposes of the group audit. We remain solely responsible for our audit opinion.

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

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

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

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF BOUBYAN BANK K.S.C.P. (continued)

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of account have been kept by the Bank and the consolidated financial statements, together with the contents of the report of the Bank's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the Central Bank of Kuwait ("CBK") as stipulated in CBK Circular Nos. 2/RB, RBA/336/2014 dated 24 June 2014, and its amendments, and 2/I.B.S. 343/2014 dated 21 October 2014, and its amendments, respectively, the Companies Law No 1 of 2016, as amended, and its executive regulations, as amended, or by the Bank's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the CBK as stipulated in CBK Circular Nos. 2/RB, RBA /336/2014 dated 24 June 2014, and its amendments and 2/I.B.S. 343/2014 dated 21 October 2014, and its amendments, respectively, the Companies Law No 1 of 2016, as amended, and its executive regulations, as amended, or of the Bank's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2024 that might have had a material effect on the business of the Bank or on its financial position.

We further report that, during the course of our audit, we have not become aware of any violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the CBK and the organisation of banking business, and its related regulations during the year ended 31 December 2024 that might have had a material effect on the business of the Bank or on its financial position.

ABDULKARIM ALSAMDAN	BADER A. AL-WAZZAN
LICENCE NO. 208 A	LICENCE NO. 62 A
EY	DELOITTE & TOUCHE
AL AIBAN, AL OSAIMI & PARTNERS	AL WAZZAN & CO.

28 January 2025
Kuwait

	Notes	2024 KD'000s	2023 KD'000s
Income			
Murabaha and other Islamic financing income	5	**458,516**	396,768
Finance cost and distribution to depositors		**(258,087)**	(224,290)
Net financing income		**200,429**	172,478
Net investment income	6	**11,216**	15,158
Net fees and commission income	7	**26,262**	22,914
Net foreign exchange gain		**8,276**	6,622
Other income		**-**	858
Net operating income		**246,183**	218,030
Staff costs		**(71,646)**	(63,660)
General and administrative expenses		**(37,624)**	(32,578)
Depreciation		**(16,859)**	(14,340)
Operating expenses		**(126,129)**	(110,578)
Operating profit before provision for impairment		**120,054**	107,452
Provision for impairment	8	**(19,274)**	(31,729)
Operating profit before taxation and board of directors' remuneration		**100,780**	75,723
Taxation	9	**(3,416)**	3,078
Board of directors' remuneration		**(580)**	(580)
Net profit for the year		**96,784**	78,221
Attributable to:			
Equity holders of the Bank		**96,801**	80,438
Non-controlling interests		**(17)**	(2,217)
Net profit for the year		**96,784**	78,221
Basic and diluted earnings per share attributable to the equity holders of the Bank (fils)	10	**21.61**	17.70

The notes from 1 to 32 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2024

	2024 **KD’000s**	2023 KD’000s
Net profit for the year	**96,784**	78,221
Other comprehensive income		
Items that are or may be reclassified to consolidated statement of profit or loss in subsequent periods:		
Change in fair value of debt investments at fair value through other comprehensive income	**(144)**	2,438
Foreign currency translation adjustments	**(177)**	1,099
Items that will not be reclassified to consolidated statement of profit or loss in subsequent periods:		
Change in fair value of equity investments at fair value through other comprehensive income	**(143)**	111
Re-measurement (loss)/gain on post-employment benefits	**(633)**	1,171
Other comprehensive (loss)/income for the year	**(1,097)**	4,819
Total comprehensive income for the year	**95,687**	83,040
Attributable to:		
Equity holders of the Bank	**95,993**	84,525
Non-controlling interests	**(306)**	(1,485)
Total comprehensive income for the year	**95,687**	83,040

The notes from 1 to 32 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2024

	Notes	**2024** KD'000s	2023 KD'000s
Assets			
Cash and balances with banks	11	**495,501**	398,952
Deposits with Central Bank of Kuwait		**125,056**	218,997
Deposits with other banks	12	**244,705**	96,228
Islamic financing to customers	13	**6,923,895**	6,321,041
Investment in Sukuk	14	**1,063,896**	886,286
Other investment securities	14	**187,996**	156,760
Investment properties	16	**68,370**	73,521
Other assets	17	**99,026**	103,988
Property and equipment		**168,123**	149,216
Total assets		**9,376,568**	8,404,989
Liabilities and Equity			
Liabilities			
Due to banks		**286,437**	187,206
Depositors' accounts		**7,424,166**	6,479,066
Medium term financing	18	**445,512**	591,680
Other liabilities	19	**134,393**	118,202
Total liabilities		**8,290,508**	7,376,154
Equity			
Share capital	20	**420,078**	396,300
Share premium	21	**316,942**	316,942
Proposed bonus shares	22	**21,004**	23,778
Treasury shares	23	**(54)**	(54)
Statutory reserve	24	**65,407**	55,233
Voluntary reserve	25	**15,327**	15,327
Other reserves	25	**(238)**	299
Retained earnings		**32,428**	15,127
Proposed cash dividends	22	**42,002**	31,700
Equity attributable to equity holders of the Bank		**912,896**	854,652
Perpetual Tier 1 Sukuk	26	**150,385**	150,385
Non-controlling interests		**22,779**	23,798
Total equity		**1,086,060**	1,028,835
Total liabilities and equity		**9,376,568**	8,404,989

Abdulaziz Abdullah Dakheel Al-Shaya
Chairman

Adel Abdul Wahab Al Majed
Vice Chairman & Group Chief Executive Officer

The notes from 1 to 32 form an integral part of these consolidated financial statements.

BOUBYAN BANK K.S.C.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2024

	Share capital	Share premium	Proposed bonus shares	Treasury shares	Statutory reserve	Voluntary reserve	Other reserves (note 25)	Retained earnings	Proposed cash dividends	Equity attributable to equity holders of the Bank	Perpetual Tier 1 Sukuk	Non-controlling interests	Total equity
	KD'000s	KD'000s	KD'000s	KD'000s	KD'000s	KD'000s	KD'000s	KD'000s	KD'000s	KD'000s	KD'000s	KD'000s	KD'000s
Balance at 1 January 2024	**396,300**	**316,942**	**23,778**	**(54)**	**55,233**	**15,327**	**299**	**15,127**	**31,700**	**854,652**	**150,385**	**23,798**	**1,028,835**
Profit/(loss) for the year	-	-	-	-	-	-	-	**96,801**	-	**96,801**	-	**(17)**	**96,784**
Other comprehensive loss for the year	-	-	-	-	-	-	**(808)**	-	-	**(808)**	-	**(289)**	**(1,097)**
Total comprehensive (loss) / income for the year	-	-	-	-	-	-	**(808)**	**96,801**	-	**95,993**	-	**(306)**	**95,687**
Dividends paid (note 22)	-	-	-	-	-	-	-	-	**(31,700)**	**(31,700)**	-	-	**(31,700)**
Issue of bonus shares (note 22)	**23,778**	-	**(23,778)**	-	-	-	-	-	-	-	-	-	-
Proposed bonus shares (note 22)	-	-	**21,004**	-	-	-	-	**(21,004)**	-	-	-	-	-
Proposed cash dividends (note 22)	-	-	-	-	-	-	-	**(42,002)**	**42,002**	-	-	-	-
Profit paid on Perpetual Tier 1 Sukuk	-	-	-	-	-	-	-	**(6,049)**	-	**(6,049)**	-	-	**(6,049)**
Transfer to statutory reserve	-	-	-	-	**10,174**	-	-	**(10,174)**	-	-	-	-	-
Realised loss on equity securities at fair value through other comprehensive income (note 25)	-	-	-	-	-	-	**271**	**(271)**	-	-	-	-	-
Other movement in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	**(713)**	**(713)**
Balance at 31 December 2024	**420,078**	**316,942**	**21,004**	**(54)**	**65,407**	**15,327**	**(238)**	**32,428**	**42,002**	**912,896**	**150,385**	**22,779**	**1,086,060**
Balance at 1 January 2023	373,868	316,942	22,432	(54)	46,761	15,327	(3,788)	4,717	22,429	798,634	150,385	30,680	979,699
Profit/(loss) for the year	-	-	-	-	-	-	-	80,438	-	80,438	-	(2,217)	78,221
Other comprehensive income for the year	-	-	-	-	-	-	4,087	-	-	4,087	-	732	4,819
Total comprehensive (loss) / income for the year	-	-	-	-	-	-	4,087	80,438	-	84,525	-	(1,485)	83,040
Dividends paid (note 22)	-	-	-	-	-	-	-	-	(22,429)	(22,429)	-	-	(22,429)
Issue of bonus shares (note 22)	22,432	-	(22,432)	-	-	-	-	-	-	-	-	-	-
Proposed bonus shares (note 22)	-	-	23,778	-	-	-	-	(23,778)	-	-	-	-	-
Proposed cash dividends (note 22)	-	-	-	-	-	-	-	(31,700)	31,700	-	-	-	-
Profit paid on Perpetual Tier 1 Sukuk	-	-	-	-	-	-	-	(6,078)	-	(6,078)	-	-	(6,078)
Transfer to statutory reserve	-	-	-	-	8,472	-	-	(8,472)	-	-	-	-	-
Other movement in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(5,397)	(5,397)
Balance at 31 December 2023	396,300	316,942	23,778	(54)	55,233	15,327	299	15,127	31,700	854,652	150,385	23,798	1,028,835

The notes from 1 to 32 form an integral part of these consolidated financial statements.

BOUBYAN BANK K.S.C.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2024

	Notes	2024 KD'000s	2023 KD'000s
OPERATING ACTIVITIES			
Net profit for the year		**96,784**	78,221
Adjustments for:			
Provision for impairment	8	**19,274**	31,729
Depreciation		**16,859**	14,340
Dividend income	6	**(8,015)**	(7,311)
Net gain from financial assets at fair value through profit or loss	6	**(2,160)**	(2,403)
Net (gain)/loss from sale of debt investments at FVOCI	6	**(103)**	148
Unrealized loss/(gain) from change in fair value of investment properties	6	**2,326**	(1,609)
Realized loss on sale of investment properties	6	**958**	-
Profit on Medium Term Financing		**20,513**	24,624
Share of results of associates	6	**(29)**	(511)
Operating profit before changes in operating assets and liabilities		**146,407**	137,228
Changes in operating assets and liabilities:			
Deposits with Central Bank of Kuwait		**55,823**	(18,295)
Deposits with other banks		**(84,387)**	46,933
Islamic financing to customers		**(616,770)**	(475,478)
Other assets		**(1,229)**	15,165
Due to banks		**98,515**	(9,313)
Depositors' accounts		**942,810**	560,744
Other liabilities		**(43,118)**	16,611
Net cash generated from operating activities		**498,051**	273,595
INVESTING ACTIVITIES			
Purchase of investment securities		**(295,795)**	(476,237)
Proceeds from sale/redemption of investment securities		**85,091**	204,880
Proceeds from redemption of investment in associates		**230**	98
Proceeds from sale of investment properties		**10,532**	1,281
Purchase of investment properties		**(8,885)**	(38,494)
Purchase of property and equipment		**(35,766)**	(34,923)
Dividend income received		**8,015**	7,311
Net cash used in investing activities		**(236,578)**	(336,084)
FINANCING ACTIVITIES			
Profit distribution on perpetual Tier 1 Sukuk		**(6,049)**	(6,078)
Redemption and profit paid on medium term financing		**(101,895)**	(131,786)
Proceeds from medium term financing		**-**	61,490
Dividends paid		**(31,700)**	(22,429)
Net movement of non-controlling interest		**(713)**	(5,397)
Net cash used in from financing activities		**(140,357)**	(104,200)
Net increase/(decrease) in cash and cash equivalents		**121,116**	(166,689)
Foreign currency translation adjustments		**893**	971
Cash and cash equivalents at the beginning of the year		**563,708**	729,426
Cash and cash equivalents at the end of the year	11	**685,717**	563,708

The notes from 1 to 32 form an integral part of these consolidated financial statements.

1. INCORPORATION AND ACTIVITIES

Boubyan Bank K.S.C.P ("the Bank") is a Kuwaiti public shareholding company incorporated on 21 September 2004, in accordance with the Commercial Companies Law in the State of Kuwait, by Amiri Decree No. 88 published on April 18th 2004, in accordance with the rules and regulations of the Central Bank of Kuwait ("CBK"). The Bank's shares were listed on the Kuwait Stock Exchange on 15 May 2006.

The Bank was licensed by the Central Bank of Kuwait to do business on 28 November 2004.

The Bank is principally engaged in providing banking services, in accordance with Codes of the Islamic Sharia'a, as approved by the Bank's Sharia'a Supervisory Board. The Bank's Articles of Incorporation were amended by adding a new activity, namely, offering securities or selling the same for their issuer or affiliate or obtaining securities from the issuer or its affiliate for remarketing (issuance management), in addition to the activity of purchase and sale of land plots and all types of real estate properties for their financing purposes as per the provisions of Law no. 32 of 1968 Concerning Currency, the Central Bank of Kuwait, and Organization of the Banking Business.

The Bank is a subsidiary of National Bank of Kuwait S.A.K.P ("the Parent Company").

The total number of employees in the Group was **2,371** employees as at 31 December 2024 (2,333 employees as at 31 December 2023).

The address of the Bank's registered office is P.O. Box 25507, Safat 13116, State of Kuwait.

The consolidated financial statements were authorised for issue by the Board of Directors on 8 January 2024 and the shareholders have the power to amend these consolidated financial statements at the annual assembly meeting.

2. BASIS OF PREPARATION

2.1 Statement of compliance

The consolidated financial statement of the Group has been prepared in accordance with the regulations for financial services institutions as issued by the Central Bank of Kuwait ("CBK") in the State of Kuwait. These regulations require banks and other financial institutions regulated by CBK to adopt the IFRS – Accounting Standards as issued by International Accounting Standards Board (IASB) with the following amendments:

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

The above framework is herein after referred to as 'IFRS – Accounting Standards as adopted by CBK for use by the State of Kuwait'.

2.2 Basis of measurement

The consolidated financial statements have been prepared under the historical cost basis except for the measurement at fair value of financial assets at fair value through other comprehensive income, financial asset at fair value through profit or loss, investment properties and derivatives at fair value. The Bank presents its consolidated statement of financial position in order of liquidity.

2.3 Functional and presentation currency

These consolidated financial statements are presented in Kuwaiti Dinars ("KD"), which is the Bank's functional currency. All financial information presented in Kuwaiti Dinars ("KD") has been rounded to the nearest thousands, except when otherwise indicated.

2.4 Changes in accounting policies and disclosures

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the previous year except for the adoption of certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2024. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

New and amended standards and interpretations

The Group applied the following amendments effective from 1 January 2024:

- Classification of Liabilities as Current or Non-current and Non-current Liabilities with Covenants - Amendments to IAS 1
- Disclosures: Supplier Finance Arrangements -Amendments to IAS 7 and IFRS 7
- Lease Liability in a Sale and Leaseback – Amendments to IFRS 16

None of these amendments had an impact on the Bank's consolidated financial statements at 31 December 2024.

2. BASIS OF PREPARATION (CONTINUED)

2.5 Standards issued but not yet effective

The significant new and amended standards and interpretations that are issued, but not yet effective up to the date of the Group's consolidated financial statements are disclosed below. The Group intends to adopt these new standards and amended standards and interpretations when they become effective.

Amendments to IFRS 9 and IFRS 7 - Classification and Measurement of Financial Instruments

On 30 May 2024, the IASB issued Amendments to IFRS 9 and IFRS 7, Amendments to the Classification and Measurement of Financial Instruments (the Amendments). The Amendments include:

- A clarification that a financial liability is derecognised on the 'settlement date' and introduce an accounting policy choice (if specific conditions are met) to derecognise financial liabilities settled using an electronic payment system before the settlement date
- Additional guidance on how the contractual cash flows for financial assets with environmental, social and corporate governance (ESG) and similar features should be assessed
- Clarifications on what constitute 'non-recourse features' and what are the characteristics of contractually linked instruments
- The introduction of disclosures for financial instruments with contingent features and additional disclosure requirements for equity instruments classified at fair value through other comprehensive income (OCI)

The Amendments are effective for annual periods starting on or after 1 January 2026. Early adoption is permitted, with an option to early adopt the amendments for classification of financial assets and related disclosures only. The Bank is currently not intending to early adopt the Amendments.

IFRS 18 Presentation and Disclosure in Financial Statements

In April 2024, the IASB issued IFRS 18 Presentation and Disclosure in Financial Statements, which replaces IAS 1 Presentation of Financial Statements. IFRS 18 introduces new requirements for presentation within the statement of profit or loss, including specified totals and subtotals. Furthermore, entities are required to classify all income and expenses within the statement of profit or loss into one of five categories: operating, investing, financing, income taxes and discontinued operations, whereof the first three are new. There are specific presentation requirements and options for entities, such as Good Bank, that have specified main business activities (either providing finance to customers or investing in specific type of assets, or both).

It also requires disclosure of newly defined management-defined performance measures, which are subtotals of income and expenses, and includes new requirements for aggregation and disaggregation of financial information based on the identified 'roles' of the primary financial statements and the notes.

Narrow-scope amendments have been made to IAS 7 Statement of Cash Flows, which include changing the starting point for determining cash flows from operations under the indirect method, from 'profit or loss' to 'operating profit or loss' and removing the optionality around classification of cash flows from dividends and interest. In addition, there are consequential amendments to several other standards IFRS 18, and the amendments to the other standards, are effective for reporting periods beginning on or after 1 January 2027, but earlier application is permitted and must be disclosed.

IFRS 18 will apply retrospectively. The Bank is currently working to identify all impacts the amendments will have on the primary financial statements and notes to the financial statements.

IFRS 19 Subsidiaries without Public Accountability: Disclosures

In May 2024, the IASB issued IFRS 19, which allows eligible entities to elect to apply its reduced disclosure requirements while still applying the recognition, measurement and presentation requirements in other IFRS accounting standards. To be eligible, at the end of the reporting period, an entity must be a subsidiary as defined in IFRS 10, cannot have public accountability and must have a parent (ultimate or intermediate) that prepares consolidated financial statements, available for public use, which comply with IFRS accounting standards. IFRS 19 will become effective for reporting periods beginning on or after 1 January 2027, with early application permitted.

2. BASIS OF PREPARATION (CONTINUED)

2.5 Standards issued but not yet effective (continued)

Lack of exchangeability – Amendments to IAS 21

In August 2023, the IASB issued amendments to IAS 21 the Effects of Changes in Foreign Exchange Rates to specify how an entity should assess whether a currency is exchangeable and how it should determine a spot exchange rate when exchangeability is lacking. The amendments also require disclosure of information that enables users of its financial statements to understand how the currency not being exchangeable into the other currency affects, or is expected to affect, the entity's financial performance, financial position and cash flows.

The amendments will be effective for annual reporting periods beginning on or after 1 January 2025. Early adoption is permitted, but will need to be disclosed. When applying the amendments, an entity cannot restate comparative information.

The amendments are not expected to have a material impact on the Group's consolidated financial statements.

3 MATERIAL ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in this consolidated financial statements, and have been applied consistently by all of the Group's entities.

3.1 Basis of consolidation

The consolidated financial statements comprise the Bank and its principal operating subsidiaries (collectively "the Group") - Boubyan Takaful Insurance Company K.S.C (Closed) , Boubyan Capital Investment Company K.S.C (Closed) and BLME Holdings plc, as at 31 December 2024 and which are controlled by the Bank as set out in note 15.

3.1.1 Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Contingent consideration, resulting from business combinations, is valued at fair value at the acquisition date. Contingent consideration classified as equity is not re-measured and its subsequent settlement is accounted for within equity.

3 MATERIAL ACCOUNTING POLICIES (CONTINUED)

3.1 Basis of consolidation (continued)

3.1.1 Business combinations (continued)

Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 *Financial Instruments*, is measured at fair value with the changes in fair value recognised in the profit or loss in accordance with IFRS 9. Other contingent consideration that is not within the scope of IFRS 9 is measured at fair value at each reporting date with changes in fair value recognised in consolidated statement of profit or loss.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in consolidated statement of profit or loss.

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of the amount that would be recognised in accordance with the requirements for provisions in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or the amount initially recognised less (when appropriate) cumulative amortisation recognised in accordance with the requirements for revenue recognition.

3.1.2 Non-controlling interests

Interest in the equity of subsidiaries not attributable to the Group is reported as non-controlling interest in the consolidated statement of financial position. Non-controlling interest in the acquiree is measured at the proportionate share in the recognized amount of the acquiree's identifiable net assets. Losses are allocated to the non-controlling interest even if they exceed the non-controlling interest's share of equity in the subsidiary. Transactions with non-controlling interests are treated as transactions with equity owners of the Group. Gains or losses on disposals of non-controlling interests without loss of control are recorded in equity.

3.1.3 Subsidiaries

Subsidiaries are all entities over which the Bank has control. The control is achieved when the Bank is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Refer Note 15 for the list of major subsidiaries, their principal businesses and the Group's effective holding.

3.1.4 Loss of control

On loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on loss of control is recognised in the consolidated statement of profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as a financial asset depending on the level of influence retained.

3. MATERIAL ACCOUNTING POLICIES (CONTINUED)

3.1 Basis of consolidation (continued)

3.1.5 Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

3.2 Foreign currency

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency).

Foreign currency transactions are recorded in the functional currency at the rate of exchange prevailing at the date of the transaction.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are included in the consolidated statement of profit or loss for the year. Exchange differences arising on the translation of non-monetary items carried at fair value are included in the consolidated statement of profit or loss for the year, except for differences arising on the translation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in other comprehensive income.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in KD using exchange rates prevailing on the reporting date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as other comprehensive income and transferred to the Group's foreign currency translation reserve. Such translation differences are recognised in the consolidated statement of profit or loss in the year in which the foreign operation is disposed off.

3.3 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

- Income from Murabaha, Wakala, and Leased assets is recognized on a pattern reflecting a constant periodic return on the outstanding net investment.
- Dividend income is recognized when the right to receive payment is established.
- Fees and commission income is recognized at the time the related services are provided.
- Rental income from investment properties is recognised on a straight line basis over the lease period.

3. MATERIAL ACCOUNTING POLICIES (CONTINUED)

3.4 Financial instruments

3.4.1 Financial assets

a) Trade and settlement date accounting

All regular way purchase and sale of financial assets are recognized using settlement date accounting. Changes in the fair value between trade date and settlement date are recognized in the consolidated statement of profit or loss for FVTPL and are recognized in other comprehensive income for FVOCI. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulations or conventions in the market place.

b) Recognition and derecognition of financial assets

Financial assets are recognised when the Group becomes party to contractual provisions of the instrument and are initially measured at fair value. Transaction costs are included only for those financial instruments that are not measured at fair value through profit or loss.

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a liability for the proceeds received.

c) Classification and measurement of financial assets

The Group has determined the classification and measurement of its financial assets as follows:

Cash and cash equivalents

Cash and cash equivalents consist of cash in hand, current account with other banks and placements with banks maturing within seven days.

Deposits with Banks, Central Bank of Kuwait and Islamic financing to customers

Deposits with banks, Central Bank of Kuwait and Islamic financing to customers are financial assets with fixed or determinable payments that are not quoted in an active market.

Murabaha

Murabaha is an agreement relating to the sale of commodities at cost plus an agreed upon profit margin, whereby the seller informs the buyer of the price at which the deal will be completed and also the amount of profit to be recognized. Murabaha is a financial asset originated by the Group and is stated at amortized cost net of provision for impairment.

Wakala

Wakala is an agreement involving Al-Muwakkil (the Principal) who wishes to appoint Al-Wakil (the Agent) to be his agent with respect to the investment of Al-Muwakkil's fund, in accordance with regulations of the Islamic Sharia'a. Wakala is a financial asset originated by the Group and is stated at amortized cost net of provision for impairment.

Leased assets - the Group as a lessor

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating lease. Leased assets are stated at amortized cost.

Renegotiated finance facilities

In the event of a default, the Group seeks to restructure facilities rather than take possession of collateral. This may involve extending the payment arrangements and the agreement of new facility conditions. When the terms and conditions of these finance facilities are renegotiated, the terms and conditions of the new contractual arrangement apply in determining whether these facilities remain past due. Management continually reviews renegotiated facilities to ensure that all criteria are met and that future payments are likely to occur. The facility continues to be subject to an individual or collective impairment assessment.

3. MATERIAL ACCOUNTING POLICIES (CONTINUED)

3.4 Financial instruments (continued)

3.4.1 Financial assets (continued)

c) Classification and measurement of financial assets (continued)

Financial assets at FVTPL and FVOCI

Group's financial investments consists of investment in debt instruments (Sukuk), equity investments and other investments. Sukuk are classified at fair value through other comprehensive income or at fair value through profit or loss based on the business model in which these securities are managed. Equity investments are generally carried at fair value through profit or loss except for those specific investments for which the Group has made an election to classify at fair value through other comprehensive income. Other investments are carried at fair value through profit or loss.

Business model assessment

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Group's business model is not assessed on an instrument-by-instrument basis but at a higher level of aggregated portfolios and is based on a number of observable factors. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed; and
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

Assessment of whether contractual cashflows are solely payments of principal and profit (SPPP test)

The Group assesses the contractual terms of financial assets to identify whether they meet the SPPP test. 'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset. Profit within a basic lending arrangement are typically as consideration for time value of money and for the credit risk associated with the principal, the most significant element of other basic lending risks and costs as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and profit, the Group considers whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. The Group considers:

- Contingent events that would change the amount and timing of cash flows;
- Leverage features;
- Prepayment and extension terms;
- Terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- Features that modify consideration of the time value of money – e.g. periodical reset of profit rates.

Contractual terms that introduce a more than minimum exposure to risks or volatility in the contractual cashflows that are unrelated to a basic lending arrangement do not give rise to contractual cashflows that are solely payment of principal and profit. In such cases, the financial asset is measured at fair value through profit or loss.

3. MATERIAL ACCOUNTING POLICIES (CONTINUED)

3.4 Financial instruments (continued)

3.4.1 Financial assets (continued)

c) Classification and measurement of financial assets (continued)

Assessment of whether contractual cashflows are solely payments of principal and profit (SPPP test) (continued)

The Group classifies its financial assets upon initial recognition into the following categories:

- Financial assets measured at amortised cost
- Financial assets measured at fair value through other comprehensive income (FVOCI)
- Financial assets measured at fair value through profit or loss (FVTPL)

(i) Financial assets measured at amortised cost:

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

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

Financial assets measured at amortised cost are subsequently measured at amortised cost using the effective yield method. Finance income, foreign exchange gains and losses and charge for expected credit losses are recognised in the consolidated statement of profit or loss. Any gain or loss on de-recognition is recognised in the consolidated statement of profit or loss.

(ii) Financial assets measured at fair value through other comprehensive income (FVOCI):

(i) Debt Securities (Sukuk) at FVOCI

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated at FVTPL:

- It is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

Debt Securities (Sukuk) at FVOCI are subsequently measured at fair value. Sukuk income is calculated using the effective yield method, foreign exchange gains and losses and impairment losses are recognised in the consolidated statement of profit or loss. Fair value changes which are not part of an effective hedging relationship are recognised in other comprehensive income and presented in the fair value reserves as part of equity until the asset is derecognised or reclassified. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to the consolidated statement of profit or loss.

(ii) Equity investments at FVOCI

Upon initial recognition, the Group makes an irrevocable election to classify some of its equity investments as equity investments at FVOCI if they meet the definition of Equity under IAS 32 Financial Instruments: Presentation and are not held for trading .Such classification is determined on an instrument by instrument basis.

Equity investments at FVOCI are subsequently measured at fair value. Changes in fair values including foreign exchange component are recognised in other comprehensive income and presented in the fair values reserves as part of equity. Cumulative profits and losses previously recognised in other comprehensive income are transferred to retained earnings on derecognition and are not recognised in the consolidated statement of profit or loss. Dividend income on equity investments at FVOCI are recognised in the consolidated statement of profit or loss unless they clearly represent a recovery of part of the cost of the investment in which case they are recognised in other comprehensive income. Equity investments at FVOCI are not subject to impairment assessment.

3. MATERIAL ACCOUNTING POLICIES (CONTINUED)

3.4 Financial instruments (continued)

3.4.1 Financial assets (continued)

c) Classification and measurement of financial assets (continued)

(iii) Financial assets measured at fair value through profit and loss (FVTPL):
Financial assets in this category are those assets which have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9. Management designates an instrument at FVTPL that otherwise meet the requirements to be measured at amortised cost or at FVOCI only if it eliminates, or significantly reduces, an accounting mismatch that would otherwise arise. Financial assets with contractual cashflows not representing solely payment of principal and profit are mandatorily required to be measured at FVTPL.

Financial assets at FVTPL are subsequently measured at fair value. Changes in fair value are recognised in the consolidated statement of profit or loss. Dividend income from equity investments measured at FVTPL is recognised in the consolidated statement of profit or loss when the right to the payment has been established.

Reclassification of financial assets
The Group does not reclassify its financial assets subsequent to their initial recognition apart in the exceptional circumstances in which the Group acquires, disposes of, or terminates a business line.

d) Impairment of financial assets
The Group computes Expected Credit Losses (ECL) on the following financial instruments that are not measured at fair value through profit or loss:

- Islamic financing to customers including loan commitments
- Letters of credit and financial guarantee contracts including commitments
- Investment in debt securities measured FVOCI (i.e. Investment in Sukuks)
- Balances and deposits with banks

Equity investments are not subject to Expected Credit Losses.

Impairment of financing facilities
Financing facilities granted by the Group consists of Islamic financing to customers, letters of credit and financial guarantee contracts and commitments to grant credit facilities. Impairment on financing facilities shall be recognised in the consolidated statement of financial position at an amount equal to the higher of ECL under IFRS 9 according to the CBK guidelines, and the provisions required by the CBK instructions.

Expected Credit Losses
The Group applies a three stage approach to measure the expected credit loss as follows. Assets migrate through the following three stages based on the change in credit quality since initial recognition.

Stage 1: 12-months ECL
The Group measures loss allowances at an amount equal to 12-months ECL on financial assets where there has not been significant increase in credit risk since their initial recognition or on exposures that are determined to have a low credit risk at the reporting date. The Group considers a financial asset to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade'.

Stage 2: Lifetime ECL – not credit impaired
The Group measures loss allowances at an amount equal to lifetime ECL on financial assets where there has been a significant increase in credit risk since initial recognition but are not credit impaired.

Stage 3: Lifetime ECL – credit impaired
The Group measures loss allowances at an amount equal to lifetime ECL on financial assets that are determined to be credit impaired based on objective evidence of impairment.

Life time expected credit losses are ECLs that result from all possible default events over the expected life of a financial instrument. The 12 months ECL is the portion of life time expected credit loss that result from default events that are possible within the 12 months after the reporting date. Both life time expected credit losses and 12 month ECLs are calculated on either an individual basis or a collective basis depending on the nature of the underlying portfolio of financial instruments.

3. MATERIAL ACCOUNTING POLICIES (CONTINUED)

3.4 Financial instruments (continued)

3.4.1 Financial assets (continued)

d) Impairment of financial assets (continued)

Expected Credit Losses (continued)

Determining the stage for impairment

At each reporting date, the Group assesses whether there has been significant increase in credit risk since initial recognition by comparing the risk of default occurring over the remaining expected life from the reporting date with the risk of default at the date of initial recognition. The quantitative criteria used to determine a significant increase in credit risk is a series of relative and absolute thresholds. All financial assets that are 30 days past due for corporates' finance and 45 days past due for Consumer finance are deemed to have significant increase in credit risk since initial recognition and migrated to stage 2 even if other criteria do not indicate a significant increase in credit risk except where the Group has reasonable and supportable information that demonstrates that the credit risk has not increased significantly even though the contractual payments are more than 30 to 45 days past due.

At each reporting date, the Group also assesses whether a financial asset or group of financial assets is credit impaired. The Group considers a financial asset to be impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred or when contractual payments are 90 days past due. All credit impaired financial assets are classified as stage 3 for ECL measurement purposes. Evidence of credit impairment includes observable data about the following:

- Significant financial difficulty of the borrower or issuer
- A breach of contract such as default or past due event
- Legal action taken against the client
- The lender having granted to the borrower a concession, that the lender would otherwise not consider, for economic or contractual reasons relating to the borrower's financial difficulty
- The disappearance of an active market for a security because of financial difficulties
- Purchase of a financial asset at a deep discount that reflects the incurred credit loss

At the reporting date, if the credit risk of a financial asset or group of financial assets has not increased significantly since initial recognition or not credit impaired, these financial assets are classified as stage 1.

Measurement of ECLs

Expected credit losses are probability-weighted estimate of credit losses and are measured as the present value of all cash shortfalls discounted at the effective profit rate of the financial instrument. Cash shortfall represent the difference between cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive. The key elements in the measurement of ECL include probability of default (PD), loss given default (LGD) and exposure at default (EAD). The Group estimates these elements using appropriate credit risk models taking into consideration of the internal and external credit ratings of the assets, nature and value of collaterals, forward looking macroeconomic scenarios etc.

Incorporation of forward-looking information

The Group considers key economic variables that are expected to have an impact on the credit risk and the ECL in order to incorporate forward looking information into the ECL models. These primarily reflect reasonable and supportable forecasts of the future macro-economic conditions. The consideration of such factors increases the degree of judgment in determination of ECL. The management reviews the methodologies and assumptions including any forecasts of future economic conditions on regular basis.

3. MATERIAL ACCOUNTING POLICIES (CONTINUED)

3.4 Financial instruments (continued)

3.4.1 Financial assets (continued)

d) Impairment of financial assets (continued)

Expected credit losses (continued)

Modification of Islamic financing to customers
Under certain circumstances, the Group seeks to restructure Islamic financing to customers rather than taking possession of collateral. This may involve extending the payment arrangements, reduction in the amount of principal or profit and the agreement of new facility or financing conditions. If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, such a facility is derecognized, and a new financial asset is recognized at fair value plus any eligible transaction costs.

Any fees received as part of the modification are accounted for as follows:.

- Fees that are considered in determining the fair value of the new financial asset and fees that represents reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- Other fees are included in profit or loss as part of the gain or loss on derecognition.

If the cash flows of the modified asset carried at amortized cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Group recalculates the gross carrying amount of the financial asset and recognizes the amount arising from adjusting the gross carrying amount as a modification gain or loss in consolidated statement of profit or loss . If such a modification is carried out because of financial difficulties of the borrower then the gain or loss is presented together with impairment losses. In other cases, it is presented as Murabaha and other Islamic financing income

If the facility is derecognized and a new facility is recognised, a loss allowance measured based on 12 month ECL except in rare occasions where the new facility is considered to be originated - credit impaired. Management continuously reviews modified Islamic financing to customers to ensure that all criteria are met and that future payments are likely to occur. Management also assesses whether there has been significant increase in credit risk or the facility should be classified in stage 3. When Islamic financing to customers have been modified but not derecognised, any impairment is measured using the original effective profit rate as calculated before the modification of terms.

Write off
The gross carrying amount of a financial asset is written off (either partially or in full) when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

Presentation of allowance for ECL in the consolidated statement of financial position
Loss allowances for ECL are presented as a deduction from the gross carrying amount of the financial assets measured at amortised cost. In the case of debt instruments measured at FVOCI (Sukuk), the Group recognises the provision charge in the consolidated statement of profit or loss with the corresponding amount recognised in other comprehensive income with no reduction in the carrying amount of the financial asset in the consolidated statement of financial position.

Provision for credit losses in accordance with CBK instructions
The Group is required to calculate provisions for credit losses on finance facilities in accordance with the instructions of CBK on the classification of finance facilities and calculation of provisions. Finance facilities are classified as past due when a payment has not been received on its contractual payment date or if the facility is in excess of pre-approved limits. A finance facility is classified as past due and impaired when the profit or a principal instalment is past due for more than 90 days and if the carrying amount of the facility is greater than its estimated recoverable value.

Past due and past due and impaired loans are managed and monitored as irregular facilities and are classified into the following four categories which are then used to determine the provisions:

Category	***Criteria***	***Specific provisions***
Watch list	Irregular for a period of 90 days	-
Substandard	Irregular for a period of 91- 180 days	20%
Doubtful	Irregular for a period of 181- 365 days	50%
Bad	Irregular for a period exceeding 365 days	100%

3. MATERIAL ACCOUNTING POLICIES (CONTINUED)

3.4 Financial instruments (continued)

3.4.1 Financial assets (continued)

d) Impairment of financial assets (continued)

Provision for credit losses in accordance with CBK instructions (continued)

The Group may also include a credit facility in one of the above categories based on management's judgement of a customer's financial and/or non-financial circumstances.

In addition to specific provisions, minimum general provisions of 1% on cash facilities and 0.5% on non-cash facilities are made on all applicable finance facilities (net of certain restricted categories of collateral) which are not subject to specific provisioning.

In March 2007, CBK issued a circular amending the basis of calculating general provisions on facilities changing the rate from 2% to 1% for cash facilities and to 0.5% for non-cash facilities. The required rates were to be applied effective from 1 January 2007 on the net increase in facilities, net of certain categories of collateral, during the reporting period. The general provision in excess of the present 1% for cash facilities and 0.5% for non-cash facilities as of 31 December 2006 would be retained as a general provision until a further directive from the Central Bank of Kuwait is issued.

3.4.2 Financial liabilities

All financial liabilities are recognised initially on the settlement date at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

Financial liabilities comprise due to banks, depositors' accounts, medium term financing and other liabilities.

Due to banks and depositors' accounts

Depositors' accounts are deposits received from customers under current account, saving investment accounts and fixed term investments accounts. The depositors' accounts of the Bank comprise the following:

i) **Non-investment deposits in the form of current accounts**: These deposits are not entitled to any profits nor do they bear any risk of loss as the Bank guarantees to pay the related balances on demand. Accordingly, these deposits are considered Qard Hassan from depositors to the Bank under Islamic Sharia'a principals. Investing such Qard Hassan is made at the discretion of the Group, the results of which are attributable to the equity shareholders of the Bank.

ii) **Investment deposit accounts**: include savings accounts, fixed term deposit accounts, and open term deposit accounts.

Saving Investment Accounts

These are open-term deposits and the client is entitled to withdraw the balances of these accounts or portions thereof at any time.

Fixed-Term Deposit Investment Accounts

These are fixed-term deposits based on the deposit contract executed between the Bank and the depositor. These deposits mature monthly, quarterly, semi-annually, or annually.

Open –Term Deposit Investment Accounts

These are open-term deposits and are treated as annual deposits renewed automatically for a similar period, unless the depositor notifies the Bank in writing of his/her desire not to renew the deposit.

In all cases, investment accounts receive a proportion of profit, bear a share of loss and are carried at cost plus profit payable.

Medium term financing

These are financial liabilities and are initially measured at fair value being the issue proceeds net of transaction costs and are subsequently measured at amortised cost using the effective profit rate method.

3.4.3 Offsetting

Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only if it is so permitted by the accounting standards, or for gains and losses arising from a group of similar transactions.

3. MATERIAL ACCOUNTING POLICIES (CONTINUED)

3.5 Profit rate benchmark reform

The Phase 2 amendments provide practical relief from certain requirements in IFRS Standards. These reliefs relate to modifications of financial instruments and lease contracts or hedging relationships triggered by a replacement of a benchmark profit rate in a contract with a new alternative benchmark rate.

If the basis for determining the contractual cash flows of a financial asset or financial liability measured at amortized cost changed as a result of profit rate benchmark reform, then the Group updated the effective profit rate of the financial asset or financial liability to reflect the change that is required by the reform. A change in the basis for determining the contractual cash flows is required by profit rate benchmark reform if the following conditions are met:

- the change is necessary as a direct consequences of the reform; and
- the new basis for determining the contractual cash flows is economically equivalent to the previous basis – i.e. the basis immediately before the change.

When the changes were made to a financial asset or financial liability in addition to changes to the basis for determining the contractual cash flows required by profit rate benchmark reform, the Group first updated the effective profit rate of the financial asset or financial liability to reflect the change that is required by profit rate benchmark reform. After that, the Group applied the policies on accounting for modifications to the additional changes.

3.6 Fair values

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 in the principal or, in its absence, in the most advantageous market to which the Group has access at that date.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

If an asset or liability measured at fair value has a bid price and an ask price, then the Group measures assets at a bid price and liabilities at an ask price.

The Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Fair values of investment properties are determined by appraisers having an appropriate recognised professional qualification and recent experience in the location and category of the property being valued and also considering the ability to generate economic benefits by using the property in its highest and best use.

3. MATERIAL ACCOUNTING POLICIES (CONTINUED)

3.7 Derivative Financial instruments and hedge accounting

Derivative instruments are initially recognised in the consolidated statement of financial position at cost (including transaction costs) and subsequently measured at their fair value.

i. Derivatives designated as Non-hedged:

The Group enters into foreign exchange forward contracts, currency swaps and profit rate swaps. Derivatives are stated at fair value. The fair value of a derivative includes unrealised gain or loss from marking to market the derivative using prevailing market rates or internal pricing models. Derivatives with positive market values (unrealised gains) are included in other assets and derivatives with negative market values (unrealised losses) are included in other liabilities in the consolidated statement of financial position.

The resultant gains and losses from derivatives are included in the consolidated statement of profit or loss.

ii. Derivatives designated as hedges:

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment.
- Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to the particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment.
- Hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge effectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is ‘an economic relationship’ between the hedge item and the hedging instrument.
- The effect of the credit risk does not ‘dominate the value changes’ that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

Hedges that meet all the qualifying criteria for hedge accounting are accounted for, as described below:

Fair value hedges:

The gain or loss on the hedging instrument is recognised in consolidated statement of profit or loss while the hedging gain or loss on the hedged item shall adjust the carrying amount of the hedged item, if applicable, and be recognised in consolidated statement profit or loss.

Cash flow hedges:

The effective portion of the gain or loss on the hedging instrument is recognised in the consolidated statement of other comprehensive income, while any ineffective portion is recognised immediately in the consolidated statement of profit or loss. The cash flow hedge reserve is adjusted to the lower of cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

Amounts recognised as other comprehensive income are transferred to the consolidated statement of profit or loss when the hedged transaction affects consolidated statement of profit or loss.

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

3. MATERIAL ACCOUNTING POLICIES (CONTINUED)

3.7 Derivative Financial instruments and hedge accounting (Continued)

Hedges of a net investment in a foreign operation:

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

3.8 Investment properties

Investment properties are properties held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost on initial recognition and subsequently at fair value with any change therein recognised in consolidated statement of profit or loss. Cost includes expenditure that is directly attributable to the acquisition of the investment property.

Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in consolidated statement of profit or loss.

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

3.9 Property and equipment

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. The initial cost of property and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Group. On-going repairs and maintenance is expensed as incurred.

Items of property and equipment are depreciated on a straight-line basis in the consolidated statement of profit or loss over the estimated useful lives of each component.

The estimated useful lives for the current and comparative years of significant items of property and equipment are as follows:

- Furniture and leasehold improvement 5 years
- Office equipment 3 years
- Software 10 years
- Furniture & hardware 5 years
- Buildings on leasehold land 20 years
- Buildings on freehold land 50 years

Depreciation methods, useful lives and residual values are reviewed periodically and adjusted, if appropriate.

3.10 Leases – Group as a lessee

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for cash consideration.

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

3. MATERIAL ACCOUNTING POLICIES (CONTINUED)

3.10 Leases – Group as a lessee (continued)

a) Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities.

The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment. The carrying value of the right-of-use assets are presented under property and equipment in the consolidated statement of financial position.

b) Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in- substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental profit rate at the lease commencement date if the profit rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of profit and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset and are presented under other liabilities in the consolidated statement of financial position.

3.11 Impairment of non- financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market rates and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in consolidated statement of profit or loss.

For non-financial assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. Where an impairment loss is subsequently reversed, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount and is limited to the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of impairment loss is recognized immediately in the consolidated statement of profit or loss.

3.12 Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are reviewed at each financial reporting date and adjusted to reflect the current best estimate of the expenditure required to settle the obligation at the financial reporting date and are discounted to present value where the effect is material.

3. MATERIAL ACCOUNTING POLICIES (CONTINUED)

3.13 Contingent liabilities and contingent assets

Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed in the notes of the consolidated financial statements, unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognized in the consolidated financial statements but are disclosed when an inflow of economic benefits is probable.

3.14 Segment reporting

Operating segments are identified on the basis of internal reports that are regularly reviewed by the decision makers in order to allocate resources to the segments and to assess their performance. Such operating segments are classified as either business segments or geographical segments.

A business segment is a distinguishable component of the Group that is engaged in providing products or services, which is subject to risks and returns that are different from those of other segments.

A geographic segment is a distinguishable component of the Group that is engaged in providing products or services within a particular economic environment which is subject to risks and returns different from those of segments operating in other economic environments.

3.15 Treasury shares

Treasury shares consist of the Bank's own shares that have been issued, subsequently reacquired by the Bank and not yet reissued or cancelled. The treasury shares are accounted for using the cost method. Under the cost method, the weighted average cost of the shares reacquired is charged to a contra equity account. When the treasury shares are reissued, gains are credited to a separate account in equity (treasury shares reserve) which is not distributable. Any realised losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings then reserves. Gains realised subsequently on the sale of treasury shares are first used to offset any previously recorded losses in the order of reserves, retained earnings and the gain on sale of treasury shares account.

No cash dividends are paid on these shares. The issue of bonus shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

3.16 Post-employment benefits

The Group is liable to make defined contributions to State plans and lump sum payments under defined benefit plans to employees at cessation of employment, in accordance with the laws of the place they are employed. The defined benefit plan is unfunded. The present value of the defined benefit obligation is determined annually by actuarial valuations using the projected unit credit method. An actuarial valuation involves making various assumptions such as determination of the discount rate, future salary increases and mortality rates. These assumptions are reviewed at each reporting date.

3.17 Kuwait Foundation for the Advancement of Sciences (KFAS)

The Bank calculates the contribution to KFAS at 1% of the Bank's net profit for the year in accordance with the Amiri Decree issued on 12 December 1976.

3.18 National Labour Support Tax (NLST)

The Bank calculates the NLST in accordance with Law No. 19 of 2000 and the Minister of Finance Resolution No. 24 of 2006 at 2.5% of taxable profit for the year. Cash dividends from listed companies which are subjected to NLST are deducted from the profit for the year to determine the taxable profit.

3.19 Zakat

Effective from 10 December 2007, the Bank has provided for Zakat in accordance with the requirements of Law No. 46 of 2006. The Zakat charge calculated in accordance with these requirements is charged to the consolidated statement of profit and loss.

3.20 Taxation

Income tax payable on taxable profit ('current tax') is recognised as an expense in the period in which the profits arise in accordance with the fiscal regulations of the respective countries in which the Group operates. Deferred tax assets are recognised for deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent it is probable that taxable profit will be available to utilise these. Deferred tax liabilities are recognised for taxable temporary differences. Deferred tax assets and liabilities are measured using tax rates and applicable legislation enacted at the reporting date.

3. MATERIAL ACCOUNTING POLICIES (CONTINUED)

3.21 Financial guarantees

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognized as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognized less cumulative amortization. The liability is measured based on the higher of ECL under IFRS 9 according to the CBK guidelines, and the provision required by CBK.

3.22 Fiduciary assets

The Group provides trust and other fiduciary services that result in the holding or investing of assets on behalf of its customers. Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and accordingly are not included in the consolidated statement of financial position. These are disclosed separately in the consolidated financial statements.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

4.1 Critical judgments in applying the Group's accounting policies

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

Fair value hierarchy

As disclosed in note 30.7, the Group is required to determine and disclose the level in the fair value hierarchy into which the fair value measurements are categorized in their entirety, segregating fair value measurements in accordance with the levels defined in IFRS. Differentiating between Level 2 and Level 3 fair value measurements, i.e., assessing whether inputs are observable and whether the unobservable inputs are significant, may require judgement and a careful analysis of the inputs used to measure fair value, including consideration of factors specific to the asset or liability.

Classification of financial assets

The Group determines the classification of financial assets based on the assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and profit on the principal amount outstanding. Judgments are required in determining the business model at an appropriate level that best reflects an aggregated group or portfolio of assets which are managed together to achieve a particular business objective. The Group also applies judgment to assess if there is a change in business model in circumstances when the assets within that business model are realised differently than the original expectations. Refer to note 3.4 classification of financial assets for more information.

4.2 Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

Expected Credit Losses on financial assets

The Group estimates Expected Credit Loss (ECL) for all financial assets carried at amortised cost or fair value through other comprehensive income except for equity instruments.

Significant judgements are required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk
- Choosing appropriate models and assumptions for measurement of ECL
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing group of similar financial assets for the purpose of measuring ECL.

Impairment losses on Islamic finance facilities

The Group reviews its irregular Islamic finance facilities on a quarterly basis to assess whether a provision for impairment should be recorded in the consolidated statement of profit or loss. In particular, considerable judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required.

Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions.

4 CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

4.2 Key sources of estimation uncertainty (continued)

Valuation of unquoted equity investments

Valuation of unquoted equity investments is based on one of the following:

- Recent arm's length market transactions; or
- Current fair value of another instrument that has substantially the same characteristics; or
- Other valuation models.

The determination of the cash flows and discount factors for unquoted equity investments requires significant estimation.

5. MURABAHA AND OTHER ISLAMIC FINANCING INCOME

Islamic financing income includes financing income from customers of **KD 408,368 thousand** (2023: KD 362,489 thousand) and income from Sukuk of **KD 50,148 thousand** (2023: KD 34,279 thousand).

6. NET INVESTMENT INCOME

	2024	2023
	KD'000s	KD'000s
Dividend income	**8,015**	7,311
Net rental income from investment properties	**4,193**	3,472
Net gain from financial assets at fair value through profit or loss	**2,160**	2,403
Net gain/(loss) from sale of debt investments at FVOCI	**103**	(148)
Unrealized (loss)/gain from changes in fair value of investment properties	**(2,326)**	1,609
Realized loss on sale of investment properties	**(958)**	-
Share of result of associates	**29**	511
	11,216	15,158

7. NET FEES AND COMMISSION INCOME

	2024	2023
	KD'000s	KD'000s
Gross fees and commission income	**50,104**	42,335
Fees and commission expenses	**(23,842)**	(19,421)
	26,262	22,914

8. PROVISION FOR IMPAIRMENT

	2024	2023
	KD'000s	KD'000s
Provision for impairment of Islamic financing to customers	**17,475**	30,863
ECL – other financial assets	**(123)**	(11)
Impairment loss on investments and other assets	**1,922**	877
	19,274	31,729

8. PROVISION FOR IMPAIRMENT (CONTINUED)

The analysis of provision for impairment of Islamic financing to customers based on specific and general provision is as follows:

	Specific	General	Total
	KD'000s	KD'000s	KD'000s
Balance at 1 January 2023	14,858	184,902	199,760
Provided during the year	22,178	8,685	30,863
Recovery of written off balances	5,255	-	5,255
Written off balances during the year	(29,625)	-	(29,625)
Foreign currency differences	792	1,038	1,830
Balance at 31 December 2023	13,458	194,625	208,083
Provided during the year	**5,686**	**11,789**	**17,475**
Recovery of written off balances	**16,416**	**-**	**16,416**
Written off balances during the year	**(9,700)**	**-**	**(9,700)**
Foreign currency differences	**(306)**	**(248)**	**(554)**
Balance at 31 December 2024	**25,554**	**206,166**	**231,720**

Further analysis of provision for impairment of Islamic financing facilities by category is as follows:

	Islamic finance to customers	Non-cash facilities	Total
	KD'000s	KD'000s	KD'000s
Balance at 1 January 2023	195,866	3,894	199,760
Provided during the year	31,151	(288)	30,863
Recovery of written off balances	5,255	-	5,255
Written off balances during the year	(29,625)	-	(29,625)
Foreign currency differences	1,830	-	1,830
Balance at 31 December 2023	204,477	3,606	208,083
Provided during the year	**17,029**	**446**	**17,475**
Recovery of written off balances	**16,416**	**-**	**16,416**
Written off balances during the year	**(9,700)**	**-**	**(9,700)**
Foreign currency differences	**(554)**	**-**	**(554)**
Balance at 31 December 2024	**227,668**	**4,052**	**231,720**

At 31 December 2024, non-performing finance facilities amounted to **KD 48,551 thousand**, net of provision of **KD 25,554 thousand** (2023: KD 54,495 thousand, net of provision of KD 13,458 thousand). The analysis of specific and general provision stated above is based on Central Bank of Kuwait's instructions.

9. TAXATION

	2024	2023
	KD'000s	KD'000s
Contribution to Kuwait Foundation for the Advancement of Sciences ("KFAS")	**915**	756
National Labour Support Tax ("NLST")	**2,452**	2,106
Zakat (Based on Zakat law no: 46/2006)	**987**	840
Overseas tax credit	**(938)**	(6,780)
	3,416	(3,078)

Pillar 2 Income Taxes

In 2021, OECD's Inclusive Framework (IF) on Base Erosion and Profit Shifting (BEPS) had agreed to a two-pillar solution in order to address tax challenges arising from digitalization of the economy. Under Pillar 2, multinational entities (MNE Group) whose revenue exceeds EUR 750 million are liable to pay corporate income tax at a minimum effective tax rate of 15% in each jurisdiction they operate. The jurisdictions in which the Group operates including the State of Kuwait have joined the IF. Group's earnings in certain jurisdictions, primarily in Kuwait and Bahrain, are currently subject to a lower effective tax rate compared to the proposed global minimum tax.

The State of Kuwait issued Law Number 157 of 2024 on 31 December 2024 (the Law) introducing domestic minimum top-up tax (DMTT) effective from the year 2025 on entities which are part of MNE Group with annual revenues of EUR 750 million or more. The Law provides that a top-up tax shall be payable on the taxable income at a rate equal to the difference between 15% and the effective tax rate of all constituent entities of the MNE Group operating within Kuwait. The taxable income and effective tax rate shall be computed in accordance with the Executive regulations which will be issued within six months from the date of issue of the Law. The Law effectively replaces the existing National Labour Support Tax (NLST) and Zakat tax regimes in Kuwait for MNEs within the scope of this Law.

9. TAXATION (CONTINUED)

Similar DMTT laws are enacted or announced in low tax jurisdictions such as the Kingdom of Bahrain and United Arab Emirates. Additionally, some jurisdictions where the Group operates have Pillar 2 legislation in effect in 2024 and some of those jurisdictions have also adopted the Undertaxed Profits rule (UTPR) whereby undertaxed profits in any of the Group's jurisdictions will be brought to an effective global minimum tax rate of 15% starting from the year 2025.

The Group has performed an analysis of its Pillar 2 position for 2024 based on OECD guidelines. The Group doesn't have any Pillar 2 top up tax exposure for 2024 in jurisdictions where the Pillar 2 legislation is in effect, since the relevant jurisdictions are already paying tax above the global minimum tax rate. The Group's effective tax rate is expected to increase significantly in 2025 due to applicability of the Pillar 2 legislation in low tax jurisdictions such as Kuwait, Bahrain, and UAE. In the absence of Executive Regulations in Kuwait, the expected impact in 2025 cannot be reasonably estimated at this time. The Group continues to assess the impact of evolving Pillar 2 tax regulations on its future financial performance.

10. BASIC AND DILUTED EARNING PER SHARE

Basic earnings per share are calculated by dividing net profit for the year attributable to the equity holders of the Bank adjusted for profit paid on Perpetual Tier 1 Sukuk by the weighted average number of shares outstanding during the year.

Diluted earnings per share is calculated by dividing the net profit for the year attributable to the equity holders of the Bank by the weighted average number of shares outstanding during the year plus the weighted average number of shares that would be issued on the conversion of all the dilutive potential shares into shares.

	2024	2023
Net profit for the year attributable to the equity holders of the Bank (KD'000s)	**96,801**	80,438
Less: profit payment on Perpetual Tier 1 Sukuk (KD'000s)	**(6,049)**	(6,078)
	90,752	74,360
Weighted average number of shares outstanding during the year (thousands of shares)	**4,200,198**	4,200,264
Basic and diluted earnings per share attributable to the equity holders of the Bank (fils)	**21.61**	17.70

Earnings per share for the year ended 2023 was 18.77 fils per share before retroactive adjustment to the number of shares following the bonus issue (see note 22).

11. CASH AND CASH EQUIVALENTS

	2024	2023
	KD'000s	KD'000s
Cash and balances with banks	**495,501**	398,952
Placement with banks maturing within seven days	**190,216**	164,756
	685,717	563,708

12. DEPOSITS WITH OTHER BANKS

The geographical distribution of deposits with other banks is as follows:

	2024	2023
	KD'000s	KD'000s
Kuwait & Middle East	**244,761**	81,604
Europe & UK	**-**	14,789
	244,761	96,393
Less: Expected credit losses (ECL)	**(56)**	(165)
	244,705	96,228

13. ISLAMIC FINANCING TO CUSTOMERS

The geographical distribution of Islamic financing to customers is as follows:

	Kuwait & Middle East	North America & Africa	Europe & UK	Total
	KD'000s	KD'000s	KD'000s	KD'000s
2024				
Corporate banking	**3,861,085**	**16,993**	**486,086**	**4,364,164**
Consumer banking	**2,787,399**	**-**	**-**	**2,787,399**
	6,648,484	**16,993**	**486,086**	**7,151,563**
Less: provision for impairment	**(204,946)**	**(170)**	**(22,552)**	**(227,668)**
	6,443,538	**16,823**	**463,534**	**6,923,895**
2023				
Corporate banking	3,444,936	11,796	479,745	3,936,477
Consumer banking	2,589,041	-	-	2,589,041
	6,033,977	11,796	479,745	6,525,518
Less: provision for impairment	(188,908)	(118)	(15,451)	(204,477)
	5,845,069	11,678	464,294	6,321,041

Provisions for impairment of Islamic financing to customers are as follows:

	Specific		General		Total	
	2024	2023	**2024**	2023	**2024**	2023
	KD'000s	KD'000s	**KD'000s**	KD'000s	**KD'000s**	KD'000s
Balance at beginning of the year	**12,333**	13,394	**192,144**	182,472	**204,477**	195,866
Provided during the year	**5,758**	22,517	**11,271**	8,634	**17,029**	31,151
Recovery of written off balances	**16,416**	5,255	**-**	-	**16,416**	5,255
Written off balances during the year	**(9,700)**	(29,625)	**-**	-	**(9,700)**	(29,625)
Foreign currency differences	**(306)**	792	**(248)**	1,038	**(554)**	1,830
Balance at end of the year	**24,501**	12,333	**203,167**	192,144	**227,668**	204,477

Further analysis of specific provision based on class of financial assets is given below:

	Corporate banking		Consumer banking		Total	
	2024	2023	**2024**	2023	**2024**	2023
	KD'000s	KD'000s	**KD'000s**	KD'000s	**KD'000s**	KD'000s
Balance at beginning of the year	**1,614**	4,929	**10,719**	8,465	**12,333**	13,394
Provided during the year	**1,079**	17,502	**4,679**	5,015	**5,758**	22,517
Recovery of written off balances	**14,520**	3,019	**1,896**	2,236	**16,416**	5,255
Written off balances during the year	**(9,700)**	(24,628)	**-**	(4,997)	**(9,700)**	(29,625)
Foreign currency differences	**(306)**	792	**-**	-	**(306)**	792
Balance at end of the year	**7,207**	1,614	**17,294**	10,719	**24,501**	12,333

Whenever necessary, Islamic financing to customers is secured by acceptable forms of collateral to mitigate the related credit risks.

Non performing Islamic financing to customers and related specific provisions are as follows:

	2024	2023
	KD'000s	KD'000s
Islamic financing to customers	**72,613**	65,219
Specific provision for impairment	**(24,501)**	(12,333)
	48,112	52,886

At 31 December 2024, management estimates the fair value of collaterals held against individually impaired Islamic finance facilities to be **KD 70,460 thousand** (2023: KD 61,725 thousand).

The ECL for Islamic financing (Cash and non-cash) as at 31 December 2024 is **KD 98,490 thousand** (2023: KD 71,091 thousand) which is lower than the provision for impairment of Islamic finance to customers required under CBK regulations.

The available provision for impairment on non-cash facilities of **KD 4,052 thousand** (2023: KD 3,606 thousand) is included under other liabilities.

13. ISLAMIC FINANCING TO CUSTOMERS (CONTINUED)

An analysis of the gross carrying amounts of Islamic financing to customers, and the corresponding Expected Credit Losses based on the staging criteria under IFRS 9 in accordance with CBK regulations. For contingent liabilities, the amounts in the table represent the amounts committed or guaranteed, respectively.

	Stage 1	Stage 2	Stage 3	Total
	KD'000s	KD'000s	KD'000s	KD'000s
31 December 2024				
High	**5,754,028**	**50,955**	**-**	**5,804,983**
Standard	**1,041,457**	**232,510**	**-**	**1,273,967**
Impaired	**-**	**-**	**72,613**	**72,613**
Islamic financing to customers	**6,795,485**	**283,465**	**72,613**	**7,151,563**
High	**350,416**	**1,505**	**-**	**351,921**
Standard	**97,526**	**64,393**	**-**	**161,919**
Impaired	-	**-**	**1,492**	**1,492**
Contingent Liabilities (Note 28)	**447,942**	**65,898**	**1,492**	**515,332**
Commitments (revocable and irrevocable) to extend credit	**1,562,911**	**79,012**	**429**	**1,642,352**
31 December 2023				
High	5,949,928	45,935	-	5,995,863
Standard	293,106	171,330	-	464,436
Impaired	-	-	65,219	65,219
Islamic financing to customers	6,243,034	217,265	65,219	6,525,518
High	313,784	1,386	-	315,170
Standard	32,834	61,464	-	94,298
Impaired	-	-	2,734	2,734
Contingent Liabilities (Note 28)	346,618	62,850	2,734	412,202
Commitments (revocable and irrevocable) to extend credit	1,231,674	58,352	1,175	1,291,201

An analysis of the changes in the Expected Credit Losses in relation to Islamic financing to customers (cash and non-cash facilities) computed under IFRS 9 in accordance to the CBK guidelines:

	Stage 1	Stage 2	Stage 3	Total
	KD 000's	KD 000's	KD 000's	KD 000's
31 December 2024				
ECL allowance as at 1 January 2024	**22,134**	**16,935**	**32,022**	**71,091**
Impact due to transfer between stages	**7,347**	**(4,358)**	**(2,989)**	**-**
Transfer from Stage 1	(1,667)	911	756	-
Transfer from Stage 2	5,022	(5,675)	653	**-**
Transfer from Stage 3	3,992	406	(4,398)	**-**
Additional ECL for the year	**(9,581)**	**24,137**	**6,168**	**20,724**
Amounts written off and recoveries	**-**	**-**	**6,716**	**6,716**
Foreign currency translation	**(5)**	**(3)**	**(33)**	**(41)**
At 31 December 2024	**19,895**	**36,711**	**41,884**	**98,490**
31 December 2023				
ECL allowance as at 1 January 2023	24,516	16,027	34,768	75,311
Impact due to transfer between stages	6,277	(3,432)	(2,845)	-
Transfer from Stage 1	(1,246)	438	808	-
Transfer from Stage 2	3,154	(4,162)	1,008	-
Transfer from Stage 3	4,369	292	(4,661)	-
Additional ECL for the year	(8,693)	4,267	24,450	20,024
Amounts written off and recoveries	-	-	(24,370)	(24,370)
Foreign currency translation	34	73	19	126
At 31 December 2023	22,134	16,935	32,022	71,091

14. INVESTMENT SECURITIES

	2024	2023
	KD'000s	KD'000s
Investment in Sukuk	**1,063,896**	886,286
Financial assets at fair value through profit or loss	**165,644**	132,859
Financial assets at fair value through other comprehensive income	**21,992**	21,844
Investment in associates	**360**	2,057
	1,251,892	1,043,046

	2024	2023
	KD'000s	KD'000s
Investment in Sukuk		
Investment in Sukuk- FVOCI	**1,044,249**	868,306
Investment in Sukuk- FVTPL	**19,647**	17,980
	1,063,896	886,286

	2024	2023
	KD'000s	KD'000s
Financial assets at fair value through profit or loss		
Investment in unquoted equity funds	**163,563**	132,859
Managed securities portfolio	**2,081**	-
	165,644	132,859

	2024	2023
	KD'000s	KD'000s
Financial assets at fair value through other comprehensive income		
Investment in unquoted equity securities	**14,077**	13,534
Investment in quoted securities	**7,915**	8,310
	21,992	21,844

15. SUBSIDIARIES

15.1 Details of principal operating subsidiaries are as follows:

Name of subsidiary	Country of incorporation	Principal activity	Effective ownership % **2024**	Effective ownership % 2023
Boubyan Takaful Insurance Company K.S.C. (Closed)	Kuwait	Takaful insurance	**98.88**	98.88
Boubyan Capital Investment Company K.S.C. (Closed)	Kuwait	Islamic investments	**100.00**	100.00
BLME Holdings Plc, ("BLME")	United Kingdom	Islamic Banking	**72.37**	72.08

15.2 Material partly-owned subsidiary

Financial information of subsidiary that has material non-controlling interest is provided below:

Proportion of equity interest held by non-controlling interests:

Name of subsidiary	Country of incorporation	Principal activity	Effective ownership % **2024**	Effective ownership % 2023
BLME Holdings Plc, ("BLME")	United Kingdom	Islamic Banking	**27.63**	27.92

15. SUBSIDIARIES (CONTINUED)

15.2 Material partly-owned subsidiary (continued)

The summarised financial information of the subsidiary is provided below. This information is based on amounts before intra-Group eliminations and adjustments.

Summarised consolidated statements of profit or loss and comprehensive income for the year ended:

	2024	2023
	KD 000's	KD 000's
Revenues	**18,178**	18,492
Expenses	**(16,680)**	(14,148)
Income for the year	**1,498**	4,344
Total comprehensive income	**1,446**	4,267
Attributable to non-controlling interest:		
Income for the year	**684**	1,071
Other comprehensive (loss)/income	**(455)**	271
	229	1,342

Summarised consolidated statement of financial position as at:

	2024	2023
	KD 000's	KD 000's
Total assets	**592,702**	618,914
Total liabilities	**496,638**	523,143
Total equity	**96,064**	95,771
Attributable to:		
Equity holders of the Bank	**68,149**	67,421
Non-controlling interest	**27,915**	28,350
	96,064	95,771

Summarised consolidated statement of cash flows for year ended:

	2024	2023
	KD 000's	KD 000's
Net cash (used in) /generated from operating activities	**(14,777)**	14,536
Net cash used in from investing activities	**(9,455)**	(17,931)
Net cash used in financing activities	**(150)**	(494)
Net decrease in cash and cash equivalents	**(24,382)**	(3,889)

16. INVESTMENT PROPERTIES

The movement in the investment properties is as follows:

	2024	2023
	KD'000s	KD'000s
Balance at the beginning of the year	**73,521**	33,618
Additions during the year	**9,244**	39,046
Disposal during the year	**(11,489)**	(1,281)
Net unrealized gain from change in fair value of investment properties	**(2,326)**	1,609
Foreign currency translation adjustments	**(580)**	529
Balance at the end of the year	**68,370**	73,521

The fair value of investment properties was determined by independent valuers who have appropriate qualifications and recent experience in the valuation of properties in the relevant locations. The fair values were determined based on market approach and income capitalization approach. In estimating the fair values of the properties, the highest and the best use of the properties is their current use where price per square meter and annual lease income are the significant inputs. There has been no change to the valuation techniques during the year. The following table provides the fair value measurement hierarchy of the investment properties.

	Level 1	**Level 2**	**Level 3**	**Total**
	KD'000's	**KD'000's**	**KD'000's**	**KD'000's**
2024				
Investment properties	**-**	**2,161**	**66,209**	**68,370**
2023				
Investment properties	-	2,221	71,300	73,521

16. INVESTMENT PROPERTIES (CONTINUED)

The following table shows a reconciliation of the opening and closing amount of level 3 investment properties:

	At 1 January 2024	**Change in fair value**	**Additions**	**Sale**	**Exchange rate movements**	**At 31 December 2024**
	KD'000's	**KD'000's**	**KD'000's**	**KD'000's**	**KD'000's**	**KD'000's**
2024						
Investment properties	**71,300**	**(2,256)**	**9,244**	**(11,489)**	**(590)**	**66,209**

	At 1 January 2023	Change in fair value	Additions	Sale	Exchange rate movements	At 31 December 2023
	KD'000's	KD'000's	KD'000's	KD'000's	KD'000's	KD'000's
2023						
Investment properties	31,421	1,589	39,045	(1,281)	526	71,300

17. OTHER ASSETS

	2024	2023
	KD'000s	KD'000s
Accrued income	**14,614**	11,771
Prepayments	**7,937**	5,807
Positive fair value of derivatives (Note 31)	**26,616**	23,607
Deferred tax assets	**24,377**	19,213
Others	**25,482**	43,590
	99,026	103,988

18. MEDIUM TERM FINANCING

	2024	2023
	KD'000s	KD'000s
Global Medium Term Sukuk ("GMTN programme")*	**383,509**	376,514
Other medium term financing**	**62,003**	215,166
	445,512	591,680

* The Bank established a USD 1 billion Global Medium Term Sukuk programme ("GMTN programme") in 2019, which has been subsequently revised to USD 3 billion in 2022.

During the prior years, on 29 March 2022, the Bank issued senior unsecured Sukuk amounting to USD 500 million due in March 2027 under the GMTN programme through a wholly owned special purpose vehicle. This Sukuk was issued at 100 per cent of nominal value and carries a fixed profit rate at 3.389% per annum payable semi-annually in arrears.

During the prior years, on 18 February 2020, the Bank issued senior unsecured Sukuk amounting to USD 750 million due in February 2025 under the GMTN programmed through a wholly owned special purpose vehicle. This Sukuk was issued at 100 per cent of nominal value and carries a fixed profit rate at 2.593% per annum payable semi-annually in arrears.

** Other medium term financing has a tenor of three years and carry a profit rate in the range of **5.24%** to **5.56%** (2023: 6.23% to 6.37%).

19. OTHER LIABILITIES

	2024	2023
	KD'000s	KD'000s
Creditors and accruals	**27,913**	24,002
Accrued staff benefits	**15,819**	13,446
Post-Employment Benefit	**18,061**	15,384
Provision on non-cash facilities (note 8)	**4,052**	3,606
Negative fair value of derivative (Note 31)	**8,780**	18,324
KFAS payable	**915**	756
Others	**58,853**	42,684
	134,393	118,202

19. OTHER LIABILITIES (CONTINUED)

Post-Employment Benefit

The present value of defined benefit obligation and the related current and past service cost was determined by actuarial valuations using the projected unit credit method. The significant inputs used in the actuarial valuation were a discount rate of **5.60%** (2023: 5.94%), future salary increases in line with expected consumer price inflation and demographic assumptions of mortality, withdrawal, retirement and disability rates.

20. SHARE CAPITAL

	2024		2023	
	Shares	**KD'000s**	Shares	KD'000s
Shares authorised, issued and fully paid in cash and bonus shares.	**4,200,783,638**	**420,078**	3,963,003,433	396,300

The change in share capital was recorded in the commercial register on 1 April 2024 (Note 22).

21. SHARE PREMIUM

The share premium is not distributable except under specific circumstances as provided by the Companies Law No. 1 of 2016 and its executive regulations, as amended.

22. DIVIDEND

The Annual General Assembly meeting of the shareholders held on 24 March 2024 approved **6%** bonus shares (2022: 6%) and a cash dividend of **8** fils per share (2022: 6 fils per share) for the year ended 31 December 2023. The cash dividend paid amounted to **KD 31,700 thousand** (2022: KD 22,429 thousand) and the bonus shares increased the number of issued and fully paid up shares by **237,780,205** shares (2022: 224,320,949 shares) and increase in share capital by **KD 23,778 thousand** (2022: KD 22,432 thousand). The approved bonus shares and cash dividends were distributed on 28 April 2024.

The board of directors recommended distribution of cash dividends of **10** fils per share and bonus share of **5%** for the year ended 31 December 2024. The proposed dividends, if approved by the shareholders' general assembly, shall be payable to the shareholders after obtaining the necessary regulatory approvals.

23. TREASURY SHARES

The Bank held the following treasury shares as at 31 December:

	2024	2023
Number of treasury shares	**594,987**	534,607
Treasury shares as a percentage of total issued shares - %	**0.01416%**	0.01349%
Cost of treasury shares (KD'000s)	**54**	54
Market value of treasury shares (KD'000s)	**334**	323
Weighted average of market value per share (fils)	**0.585**	0.639

An amount equivalent to the cost of purchase of the treasury shares have been earmarked as non-distributable from voluntary reserve throughout the holding period of treasury shares.

24. STATUTORY RESERVE

In accordance with the Companies Law No. 1 of 2016 and the Bank's Memorandum of Incorporation and Articles of Association, a minimum of 10% profit for the year attributable to the shareholders of the Bank before KFAS, NLST, Zakat and Board of directors' remuneration is transferred to statutory reserve based on the recommendation of the Banks's Board of Directors. The Bank may resolve to discontinue such annual transfers when the reserve equals 50% of the capital. This reserve is not available for distribution except in cases stipulated by law and the Bank's Articles of Association.

25. OTHER RESERVES

	Fair value reserve	**Foreign currency translation reserve**	**Change in actuarial valuation reserve**	**Total**
	KD'000s	**KD'000s**	**KD'000s**	**KD'000s**
Balance at 1 January 2024	**13,162**	**(12,825)**	**(38)**	**299**
Other comprehensive (loss)/income	**(287)**	**112**	**(633)**	**(808)**
Total comprehensive (loss)/income for the year	**(287)**	**112**	**(633)**	**(808)**
Realised loss on equity securities at fair value through other comprehensive income	**271**	**-**	**-**	**271**
Balance at 31 December 2024	**13,146**	**(12,713)**	**(671)**	**(238)**

	Fair value reserve	Foreign currency translation reserve	Change in actuarial valuation reserve	Total
	KD'000s	KD'000s	KD'000s	KD'000s
Balance at 1 January 2023	10,613	(13,192)	(1,209)	(3,788)
Other comprehensive income	2,549	367	1,171	4,087
Total comprehensive income for the year	2,549	367	1,171	4,087
Balance at 31 December 2023	13,162	(12,825)	(38)	299

Voluntary reserve

As required by the Bank's Articles of Association, a maximum of 10% of the profit for the year attributable to the shareholders of the Bank before Board of Directors' remuneration has to be transferred to the voluntary reserve. Such annual transfers may be discontinued by a resolution of the shareholders' General Assembly upon a recommendation by the Board of Directors. On 24 March 2024, the shareholders' General Assembly approved to discontinue the transfers to the voluntary reserve.

Voluntary reserve is available to be distributed to shareholders at the discretion of the general assembly in ways that may be deemed beneficial to the Bank, except for the amount equivalent to the cost of purchase of the treasury shares (note 23).

26. PERPETUAL TIER 1 SUKUK

During the previous years on 1 April 2021, the Bank has issued "Tier 1 Sukuk – 2021", through a Sharia's compliant Sukuk arrangement amounting to USD 500 million which was fully allocated. Tier 1 Sukuk -2021 is a perpetual security in respect of which there is no fixed redemption date and constitutes direct, unsecured, subordinated obligations (senior only to share capital) of the Bank subject to the terms and conditions of the Mudaraba Agreement. The Tier 1 Sukuk – 2021 is callable by the Bank on 1 October 2026 and bears an expected profit rate of **3.95%** per annum to be paid semi-annually in arrears. The expected profit rate will be reset on 1 April 2027 based on then prevailing 6 years US Treasury Rate plus initial margin of **2.896%** per annum. The net proceeds are invested by way of Mudaraba with the Bank (as Mudareb) on an unrestricted co-mingling basis, by the Bank in its general business activities carried out through the general Mudaraba pool. Mudaraba profit will not be accumulated and the event is not considered an event of default.

27. RELATED PARTY TRANSACTIONS

Related parties comprise the major shareholders, board of directors, entities controlled by them or under their joint control, associates, key management personnel and their close family members and the Parent Company including their board members, key management personnel, branches, associates and subsidiaries. Balances with related parties arise from commercial transactions in the normal course of business and are included within the following financial information captions:

	Number of board member or executive officers		Number of related parties			
	2024	2023	**2024**	2023	**2024**	2023
					KD'000s	KD'000s
Islamic financing to customers	**10**	13	**8**	6	**83,020**	68,733
Depositors' accounts	**26**	28	**41**	42	**18,094**	18,345
Letters of guarantee and letters of credit	**-**	-	**3**	1	**1,910**	3,732
Murabaha and other Islamic financing income					**3,702**	3,635
Finance cost and distribution to depositors					**(290)**	(420)
Parent Company						
Due from banks					**61,244**	28,510
Due to banks					**88,322**	73,022
Depositors accounts					**1,832**	175
Murabaha and other Islamic financing income					**1,087**	630
Finance cost and distribution to depositors					**(1,901)**	(2,350)

The Group holds collaterals against Islamic finance facilities to related parties in the form of shares and real estate. An estimate of the fair value of collaterals held against Islamic finance facilities to related parties amounted to **KD 121,570 thousand** as at 31 December 2024 (2023: KD 91,800 thousand).

Compensation of key management personnel:

Details of compensation for key management comprise the following:

	2024	2023
	KD'000s	KD'000s
Short-term benefits	**3,400**	3,626
Post-employment benefits	**422**	297
Deferred compensation	**1,081**	1,029
	4,903	4,952

Remuneration to directors of the Bank amounting to **KD 580** thousand for the year ended 31 December 2024 (31 December 2023: KD 580 thousand) is in accordance with local regulations and is subject to approval of shareholders at the Annual General Meeting.

28. CONTINGENCIES AND COMMITMENTS

At the financial reporting date there were outstanding contingencies and commitments entered in the ordinary course of business in respect of the following:

	2024	2023
	KD'000s	KD'000s
Letters of Guarantee	**409,551**	305,879
Letters of credit and Acceptances	**105,781**	106,323
Capital commitments and irrevocable undrawn financing Commitments	**165,219**	282,752
	680,551	694,954

29. SEGMENT REPORTING

Operating segments are identified on the basis of internal reports that are regularly reviewed by the decision makers in order to allocate resources to the segments and to assess their performance. The operating segments are divided as either business segments or geographical segments.

Business Segments

For management purposes, the Group is organized into the following four major business segments:

Consumer banking: Provides a diversified range of products and services to individuals and institutional customers. The range includes consumer finance, credit cards, deposits and other branch related services.

Corporate banking: Provides Murabaha, Ijarah, trade service and other related services to business and corporate customers.

Investment banking and international operations: Principally handling direct investments, investment in associates, local and international real estate investment, asset and wealth management.

Treasury: Principally handling local and international Murabaha and other Islamic financing, primarily with banks, as well as the management of the Bank's funding operations.

Group centre: Includes other group activities and residual in respect of transfer pricing and inter segment allocation.

	Consumer banking	**Corporate banking**	**Investment banking and international operations**	**Treasury**	**Group centre**	**Total**
2024	**KD'000s**	**KD'000s**	**KD'000s**	**KD'000s**	**KD'000s**	**KD'000s**
Net financing income	**111,225**	**48,660**	**2,246**	**28,989**	**9,309**	**200,429**
Operating income	**122,530**	**58,074**	**24,563**	**36,976**	**4,040**	**246,183**
Net profit/(loss) for the year	**69,550**	**47,831**	**(8,956)**	**35,823**	**(47,464)**	**96,784**
Total assets	**2,763,658**	**3,872,831**	**747,062**	**1,839,332**	**153,685**	**9,376,568**
Total liabilities	**5,184,136**	**557,077**	**600,086**	**1,491,351**	**457,858**	**8,290,508**
2023						
Net financing income	98,285	42,617	5,124	21,853	4,599	172,478
Operating income/(loss)	110,174	50,756	30,162	28,521	(1,583)	218,030
Net profit/(loss) for the year	62,668	45,874	(4,084)	27,158	(53,395)	78,221
Total assets	2,576,372	3,433,729	782,676	1,481,930	130,282	8,404,989
Total liabilities	4,257,922	451,799	647,689	1,466,300	552,444	7,376,154

Geographical segment

In presenting information on the basis of geographical areas, revenue is based on the geographical location of customers and assets are based on the geographical location of assets.

	Middle East & North Africa	**North America**	**Europe & UK**	**Asia**	**Total**
	KD'000s	**KD'000s**	**KD'000s**	**KD'000s**	**KD'000s**
2024					
Assets	**8,426,500**	**220,161**	**541,117**	**188,790**	**9,376,568**
Non-current assets (excluding financial instruments)	**268,521**	**4,615**	**62,744**	**-**	**335,880**
Liabilities and equity	**8,507,573**	**461,217**	**367,315**	**40,463**	**9,376,568**
Segment income	**215,730**	**7,402**	**19,880**	**3,171**	**246,183**
2023					
Assets	7,578,359	62,365	603,976	160,289	8,404,989
Non-current assets (excluding financial instruments)	269,345	97	59,339	-	328,781
Liabilities and equity	7,308,941	481,860	418,320	195,868	8,404,989
Segment income	203,954	2,693	5,371	6,012	218,030

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

30.1 Introduction and overview

Risk is inherent in the Group's activities but is managed in a structured, systematic manner through a Group risk policy that embeds comprehensive risk management into organisational structure, risk measurement and monitoring processes. The overall risk management direction and oversight is provided by the Board of Directors and Board Risk Committee with the support of the Management Executive Committee and the Group's Risk Management functions.

The Group is exposed to credit risk, market risk, liquidity risk and operational risk.

In accordance with the Central Bank of Kuwait's directives, the Group has implemented a comprehensive system for the measurement and management of risk. This methodology helps in reflecting both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. Information compiled from all internal business groups are closely examined and analysed to identify, manage and control risks.

Transactions and outstanding risk exposures are quantified and compared against authorised limits, whereas non-quantifiable risks are monitored against policy guidelines and key risk and control indicators. Any discrepancies, excesses or deviations are escalated to management for appropriate action.

As part of its overall risk management, the Group uses financial instruments to manage exposures resulting from market and profit rate risk. Collateral is used to reduce the Group's credit risk.

The Group's comprehensive risk management framework has specific guidelines that focus on maintaining a diversified portfolio to avoid excessive concentration of risks.

30.2 Credit risk

30.2.1 Assessment of expected credit losses

Credit risk is the risk that counterparty will cause a financial loss to the Group by failing to discharge an obligation. Credit risk arises in the Group's normal course of business.

All policies relating to credit are reviewed and approved by the Board of Directors.

Credit limits are established for all customers after a careful assessment of their credit worthiness. Standing procedures, outlined in the Group's Credit Policy Manual, require that all credit proposals be subjected to detailed screening by the respective credit risk functions. Whenever necessary, Islamic facilities are secured by acceptable forms of collateral to mitigate the related credit risks.

In accordance with the instructions of the Central Bank of Kuwait, setting out the rules and regulations regarding the classification of credit facilities, the Group has formed an internal committee comprising competent professional staff and having as its purpose the study and evaluation of the existing credit facilities of each customer of the Group. This committee, which meets regularly throughout the year, is required to identify any abnormal situations and difficulties associated with a customer's position which might cause the debt to be classified as irregular, and to determine an appropriate provisioning level.

The Group further limits risk through diversification of its assets by industry sectors. In addition, all credit facilities are continually monitored based on a periodical review of the credit performance and account rating.

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

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held);
- the borrower is past due more than 90 days on any material credit obligation to the Group; or
- borrower is considered as credit impaired based on qualitative assessment for internal credit risk for management purposes; or any ongoing legal action proceeded by the bank.

The Group considers investments in sukuk and interbank balances as in default when the coupon or principal payment is past due.

The Group considers a financial asset as 'cured' (i.e. no longer be in default) and therefore reclassified out of stage 3 when it is no longer meets any of the default criteria. However, these would be required to meet the scheduled payments (all on current basis) for at least 1 year, or as the reason for such classification has been cured.

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.2 Credit risk (continued)

30.2.1 Assessment of expected credit losses *(continued)*

Significant increase in credit risk

The Group continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12 months ECL or life time ECL, the Group assess whether there has been a significant increase in credit risk since initial recognition including assessment of impairment factors in the light of the ongoing economic impacts such as whether financial difficulties of the borrowers are temporary or long-term and the industry sectors in which the borrowers operate. The quantitative criteria used to determine a significant increase in credit risk is a series of relative and absolute thresholds which are subjected to bank's internal policies and regulatory thresholds.

The Group considers a 2 notch downgrade (without considering modifiers in the rating) as a significant increase in credit risk for externally rated instruments with an "investment grade" rating at inception of the asset whereas for instruments with a below "investment grade" rating at inception, 1 notch downgrade is considered as a significant increase in credit risk. Similarly the Group applies consistent quantitative criteria for internally rated portfolio to assess significant increase in credit risk. In the absence of ratings at inception, the Group considers the earlier available rating to determine if there is significant increase in credit risk.

Measurement of ECLs

ECLs are probability weighted estimates of credit losses and are measured as the present value of all cash shortfalls discounted at the effective profit rate of the financial instrument. Cash shortfall represents the difference between cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive. The key elements in the measurement of ECL include probability of default (PD), loss given default (LGD) and exposure at default (EAD).

The Group estimates these elements using appropriate credit risk models taking into consideration the internal and external credit ratings of the assets, nature and value of collaterals, credit conversion factors for off balance sheet commitments, forward looking macro-economic scenarios etc.

The Group considers expected maturity period of 7 years for credit facilities to corporate customers classified in stage 2 unless these facilities have schedule of repayments with final repayment amount not exceeding 50% of the original credit facilities. The expected maturity period of 5 years is considered for consumer financing and credit cards and 15 years for housing loans.

The Group calculates ECL on credit facilities classified in stage 3 at 100% of the defaulted exposure net of value of eligible collaterals after applying the haircuts prescribed by CBK.

Incorporation of forward-looking information

The Group considers various key economic variables which reflect the continuing uncertainties and effect stemming from ongoing economic impacts and other emerging risks, which may be expected to have an impact on credit risk and the expected credit losses (ECL), when incorporating forward-looking information into the ECL models. Key economic variables include, but are not limited to, Gross Domestic Product, Equity price index, Oil prices, and Government expenditure. Together, they provide reasonable indications and forecasts of future macro-economic conditions. The consideration of such factors increases the degree of judgment in determination of ECL. The Group employs statistical models which incorporate the effect of macro-economic factors to adjust the historical TTC PDs to arrive at the PiT PDs. The Group considers three scenarios (baseline, upside and downside) of forecasts of macro-economic data separately for designated geographies and segments, and appropriate probability weights are applied to these scenarios to derive a probability-weighted outcome of expected credit loss. Management reviews the methodologies and assumptions including any forecasts of future economic conditions, on a regular basis.

The weighting of the multiple scenarios increased the Bank's reported allowance for credit losses for financial assets, other than credit facilities, in Stage 1 and Stage 2, relative to the base case scenario, by **KD 1,269 thousands** (2023: increased by KD 380 thousands). If the Bank were to use only downside case scenario for the measurement of allowance for credit losses for financial assets, other than credit facilities, allowance for credit losses would be **KD 5,281 thousands** (2023: KD 1,759 thousands) higher than the reported allowance for credit losses as at 31 December 2024.

The weighting of the multiple scenarios increased Bank's reported allowance for credit losses for financing receivables in Stage 1 and Stage 2, relative to our base case scenario, by **KD 1,233 thousands** (2023: KD 3,357 thousands). If the Bank were to use only downside case scenario for the measurement of allowance for credit losses for financing receivables, allowance for credit losses on performing loans would be **KD 4,235 thousands** (2023: KD 5,176 thousands) higher than the reported allowance for credit losses as at 31 December 2024.

Actual results will differ as this does not consider the migration of exposures or incorporate changes that would occur in the portfolio due to risk mitigation actions and other factors.

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.2 Credit risk (continued)

30.2.1 Assessment of expected credit losses (continued)

Internal rating and PD estimation process

In managing its portfolio, the Group utilises ratings and other measures and techniques which seek to take account of all aspects of perceived risk. The Group uses industry standard rating tools for assessing ratings/scores that are leveraged for PD estimation process. The tool provides the ability to analyse a business and produce risk ratings at both the obligor and facility level.

The analysis supports the usage of financial factors as well as non-financial subjective factors. The Group also uses external ratings by recognised rating agencies for externally rated portfolios.

The Probability of Default (PD) is the likelihood that an obligor will default on its obligations in the future. IFRS 9 requires the use of separate PD for a 12-month duration and lifetime duration depending on the stage allocation of the obligor. A PD used for IFRS 9 should reflect the Group’s estimate of the future asset quality. The through the cycle (TTC) PDs are generated from the rating tool based on the internal/external credit ratings. The Group converts the TTC PD to a point in time (PIT) PD term structures using appropriate models and techniques.

The Group assesses the PD for its retail portfolio through behavioural scorecards implemented in the Group. The scorecards are based on logistic regression technique. This enables the evaluation of score and PD associated against each facility. Term structure of PD is based on hazard rate concept. The survival distribution used is exponential distribution. The probability distribution function of an exponentially distributed random variable is used with the hazard rate as the PD evaluated from the Behavioural scorecard. The Group applied minimum PD floors as prescribed the Central Bank of Kuwait (CBK).

Exposure at default

Exposure at default (EAD) represents the amount which the obligor will owe to the Group at the time of default. The Group considers variable exposures that may increase the EAD in addition to the drawn credit line. These exposures arise from undrawn limits and contingent liabilities. Therefore, the exposure will contain both on and off balance sheet values. EAD is estimated taking into consideration the contractual terms such as coupon rates, frequency, reference curves, maturity, amortization schedule, credit conversion factors, etc. Credit conversion factors are applied to estimate the future draw downs and compute EAD for credit cards portfolio.

Loss given default

Loss given default (LGD) is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. The Group applied minimum LGD floors as prescribed by the Central Bank of Kuwait (CBK).

30.2.2 Maximum exposure to credit risk (Net exposure after covered collateral)

An analysis of Islamic financing to customers and contingent liabilities before and after taking account of collateral held or other credit enhancements is as follows:

	2024		2023	
	Gross exposure	**Net exposure**	Gross exposure	Net exposure
	KD’000’s	**KD’000’s**	KD’000’s	KD’000’s
Islamic financing to customers	**6,923,895**	**4,490,480**	6,321,041	4,111,532
Contingent liabilities and other commitments	**680,551**	**639,263**	694,954	653,560

Collateral and other credit enhancements

The amount, type and valuation of collateral are based on guidelines specified in the risk management framework. The main types of collateral accepted includes real estate, shares, cash collateral and bank guarantees. The revaluation and custody of collaterals are performed independent of the business units. The Group may also obtain guarantees from parent companies for financing provided to their subsidiaries in addition to personal guarantees from owners.

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.2 Credit risk (continued)

30.2.3 Risk Concentration of the maximum exposure to credit risk

Concentrations of credit risk arise from exposure to customers having similar characteristics in terms of the geographic location in which they operate or the industry sector in which they are engaged, such that their ability to discharge contractual obligations may be similarly affected by changes in political, economic or other conditions.

Credit risk can also arise due to a significant concentration of Group's assets to any single counterparty. This risk is managed by diversification of the portfolio. The 20 largest Islamic financing facilities outstanding as a percentage of gross facilities as at 31 December 2024 are **21.13%** (2023: 21.31%).

The Group's financial assets and off-balance sheet items, before taking into account any collateral held or credit enhancements can be analysed by the following geographic regions:

	Middle East & North Africa	North America	Europe & UK	Asia	Total
	KD'000's	KD'000's	KD'000's	KD'000's	KD'000's
2024					
Balances with banks	**386,591**	**38,746**	**29,973**	**43**	**455,353**
Deposits with Central Bank of Kuwait	**125,056**	**-**	**-**	**-**	**125,056**
Deposits with other banks	**244,705**	**-**	**-**	**-**	**244,705**
Islamic financing to customers	**6,443,538**	**16,823**	**463,534**	**-**	**6,923,895**
Investment in Sukuk	**875,181**	**-**	**-**	**188,715**	**1,063,896**
Other assets (excluding prepayments)	**64,901**	**-**	**26,188**	**-**	**91,089**
	8,139,972	**55,569**	**519,695**	**188,758**	**8,903,994**
Contingent liabilities	**512,869**	**-**	**417**	**2,046**	**515,332**
Commitments	**126,410**	**-**	**38,809**	**-**	**165,219**
Total credit risk exposure	**8,779,251**	**55,569**	**558,921**	**190,804**	**9,584,545**
2023					
Balances with banks	283,949	26,112	42,685	37	352,783
Deposits with Central Bank of Kuwait	218,997	-	-	-	218,997
Deposits with other banks	81,284	3,145	11,799	-	96,228
Islamic financing to customers	5,831,031	12	489,984	14	6,321,041
Investment in Sukuk	726,048	-	-	160,238	886,286
Other assets (excluding prepayments)	77,790	-	20,391	-	98,181
	7,219,099	29,269	564,859	160,289	7,973,516
Contingent liabilities	409,605	-	551	2,046	412,202
Commitments	234,590	-	48,162	-	282,752
Total credit risk exposure	7,863,294	29,269	613,572	162,335	8,668,470

The Group's financial assets before taking into account any collateral held or credit enhancements, can be analysed by the following industry sectors:

	2024	2023
	KD'000's	KD'000's
Trading	**365,273**	331,551
Manufacturing	**97,831**	102,086
Banking and other financial institutions	**1,883,043**	1,571,692
Construction	**524,776**	410,561
Real Estate	**1,823,124**	1,521,477
Retail	**2,696,986**	2,450,875
Government	**873,691**	778,693
Others	**1,319,821**	1,501,535
	9,584,545	8,668,470

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.2 Credit risk (continued)

30.2.4 Credit quality per class of financial assets

In managing its portfolio, the Group utilises ratings and other measures and techniques which seek to take account of relevant aspects of perceived risk. Credit exposures classified as 'High' quality are those where the ultimate risk of financial loss from the obligor's failure to discharge its obligation is assessed to be low. These include facilities to corporate entities with financial condition, risk indicators and capacity to repay which are considered to be good to excellent. Credit exposures classified as 'Standard' quality comprise all other facilities whose payment performance is fully compliant with contractual conditions and which are not impaired. The ultimate risk of possible financial loss on 'Standard' quality is assessed to be higher than that for the exposures classified within the 'High' quality range.

The table below shows the credit quality by class of asset for consolidated statement of financial position lines, based on the Group's credit rating system:

	High	**Standard**	**Impaired**	**Total**
	KD'000's	**KD'000's**	**KD'000's**	**KD'000's**
2024				
Balances with banks	**455,353**	**-**	**-**	**455,353**
Deposits with Central Bank of Kuwait	**125,265**	**-**	**-**	**125,265**
Deposits with other banks	**244,761**	**-**	**-**	**244,761**
Islamic financing to customers	**5,804,984**	**1,273,966**	**72,613**	**7,151,563**
Investment in Sukuk	**1,063,896**	**-**	**-**	**1,063,896**
Other assets (excluding prepayment)	**91,089**	**-**	**-**	**91,089**
	7,785,348	**1,273,966**	**72,613**	**9,131,927**

	High	Standard	Impaired	Total
	KD'000's	KD'000's	KD'000's	KD'000's
2023				
Balances with banks	352,783	-	-	352,783
Deposits with Central Bank of Kuwait	219,027	-	-	219,027
Deposits with other banks	96,393	-	-	96,393
Islamic financing to customers	5,995,863	464,437	65,219	6,525,519
Investment in Sukuk	886,286	-	-	886,286
Other assets (excluding prepayment)	98,181	-	-	98,181
	7,648,533	464,437	65,219	8,178,189

Ageing analysis of past due or impaired financial assets:

	Corporate banking		**Consumer banking**		**Total**	
	Past due and not impaired	**Impaired**	**Past due and not impaired**	**Impaired**	**Past due and not Impaired**	**Impaired**
	KD'000's	**KD'000's**	**KD'000's**	**KD'000's**	**KD'000's**	**KD'000's**
2024						
Up to 30 days	**25,202**	**16,970**	**1,764**	**345**	**26,966**	**17,315**
31 – 60 days	**696**	**1,792**	**9,588**	**130**	**10,284**	**1,922**
61 – 90 days	**2,148**	**-**	**3,884**	**68**	**6,032**	**68**
91 – 180 days	**-**	**3,051**	**-**	**4,931**	**-**	**7,982**
More than 180 days	**-**	**27,790**	**-**	**17,536**	**-**	**45,326**
	28,046	**49,603**	**15,236**	**23,010**	**43,282**	**72,613**
2023						
Up to 30 days	8,198	7,773	1,750	746	9,948	8,519
31 – 60 days	2,958	-	8,237	120	11,195	120
61 – 90 days	387	-	4,164	89	4,551	89
91 – 180 days	-	5,105	-	6,211	-	11,316
More than 180 days	-	34,700	-	10,475	-	45,175
	11,543	47,578	14,151	17,641	25,694	65,219

At 31 December 2024 management estimates the fair value of collaterals held against individually past due and impaired Islamic finance facilities to **KD 141,320 thousand** (2023: KD 102,932 thousand).

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.3 Market risk

Market risk is the risk that the fair value of financial instruments will fluctuate due to changes in market prices. Market risks arise from open positions in currency and securities, all of which are exposed to general and specific market movements and changes in the level of volatility of prices and profit rates.

The Group is not exposed to material risk in terms of the re-pricing of its liabilities since, in accordance with Islamic Sharia'a, the Group does not provide a guaranteed contractual rate of return to its depositors.

The group takes major steps towards managing its market risk through diversification, pre-fact risk assessment, limits and controls at various points, and continuous monitoring and reporting.

30.3.1 Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign currency exchange rates.

Foreign exchange risks are controlled through limits pre-established by the Board of Directors on currency position exposures. Assets are typically funded in the same currency as that of the business being transacted to eliminate exchange exposures. Appropriate segregation of duties exists between the treasury front and back office functions, while compliance with position limits is independently monitored on an ongoing basis by an independent middle office function.

The table below analyses the effect on profit and equity of an assumed 5% strengthening in value of the currency rate against the Kuwaiti Dinar from levels applicable at the year end, with all other variables held constant. A negative amount in the table reflects a potential net reduction in profit or equity, whereas a positive amount reflects a net potential increase.

		2024		2023	
		Effect on profit	**Effect on equity**	Effect on profit	Effect on equity
		KD'000's	**KD'000's**	KD'000's	KD'000's
US Dollar	+5	**(365)**	**119**	(708)	114
Sterling Pound	+5	**333**	**8**	(12)	24
Euro	+5	**(104)**	**-**	11	-
Japanese Yen	+5	**3**	**-**	4	-
Saudi Riyals	+5	**(240)**	**397**	(415)	418
Others	+5	**62**	**-**	14	-

A five percent decrease of the above currencies against the Kuwaiti Dinar would have had equal, but opposite, effect of the amounts shown above, on the basis that all other variables remain constant.

30.3.2 Equity price risk

Equity price risk arises from the change in fair values of equity investments. The Group manages this risk through diversification of investments in terms of geographical distribution and industry concentration.

For such investments classified as FVOCI, a five percent increase in stock prices as at 31 December 2024 would have increased equity by **KD 1,100 thousand** (2023: an increase of KD 1,092 thousand). For such investments classified as at fair value through profit or loss, the impact on profit or loss would have been an increase of **KD 104 thousand** (2023: Nil). An equal change in the opposite direction would have had equal, but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.4 Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its financial liabilities when they fall due. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind and monitors liquidity on a daily basis.

The Group has established an Asset and Liabilities Management Committee to manage the assets and liabilities of the Group comprehensively and strategically. The committee meets regularly to determine and review policies for managing liquidity risk, as well as to set risk limits.

The table below summarises the maturity profile of Group's assets, liabilities and equity based on contractual cash flows, maturity dates or on management's estimate of liquidation. This does not necessarily take account of the effective maturities.

	Up to three months	3 to 6 months	6 months to one year	Over 1 year	Total
	KD'000's	KD'000's	KD'000's	KD'000's	KD'000's
2024					
Assets					
Cash and balances with banks	**495,501**	**-**	**-**	**-**	**495,501**
Deposits with Central Bank of Kuwait	**107,012**	**18,044**	**-**	**-**	**125,056**
Deposits with Banks	**244,705**	**-**	**-**	**-**	**244,705**
Islamic financing to customers	**3,434,499**	**354,081**	**198,218**	**2,937,097**	**6,923,895**
Investment in Sukuk	**140,165**	**88,868**	**64,339**	**770,524**	**1,063,896**
Other investment securities	**-**	**1,446**	**-**	**186,550**	**187,996**
Investment properties	**-**	**-**	**-**	**68,370**	**68,370**
Other assets	**35,554**	**-**	**12,365**	**51,107**	**99,026**
Property and equipment	**-**	**-**	**-**	**168,123**	**168,123**
Total assets	**4,457,436**	**462,439**	**274,922**	**4,181,771**	**9,376,568**
Liabilities and Equity					
Due to banks	**272,863**	**12,031**	**1,543**	**-**	**286,437**
Depositors' accounts	**4,721,150**	**1,268,361**	**1,175,451**	**259,204**	**7,424,166**
Medium term financing	**231,458**	**3,401**	**-**	**210,653**	**445,512**
Other liabilities	**19,958**	**-**	**16,910**	**97,525**	**134,393**
Equity	**-**	**-**	**-**	**1,086,060**	**1,086,060**
Total liabilities and equity	**5,245,429**	**1,283,793**	**1,193,904**	**1,653,442**	**9,376,568**
Derivative Financial instruments settled on a gross basis					
Contractual amounts payable	**197,062**	**310,027**	**-**	**-**	**507,089**
Contractual amounts receivable	**195,985**	**308,374**	**-**	**-**	**504,359**

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.4 Liquidity risk (continued)

	Up to three months	3 to 6 months	6 months to one year	Over 1 year	Total
2023	KD'000's	KD'000's	KD'000's	KD'000's	KD'000's
Assets					
Cash and balances with banks	398,952	-	-	-	398,952
Deposits with Central Bank of Kuwait	160,487	57,504	1,006	-	218,997
Deposits with Banks	96,228	-	-	-	96,228
Islamic financing to customers	2,634,988	901,149	204,105	2,580,799	6,321,041
Investment in Sukuk	141,479	59,159	25,663	659,985	886,286
Other investment securities	2,318	-	3,654	150,788	156,760
Investment properties	-	-	-	73,521	73,521
Other assets	51,781	-	5,942	46,265	103,988
Property and equipment	-	-	-	149,216	149,216
Total assets	3,486,233	1,017,812	240,370	3,660,574	8,404,989
Liabilities and Equity					
Due to banks	176,892	6,135	4,179	-	187,206
Depositors' accounts	4,445,953	1,035,875	761,222	236,016	6,479,066
Medium term financing	-	-	153,690	437,990	591,680
Other liabilities	26,974	-	20,646	70,582	118,202
Equity	-	-	-	1,028,835	1,028,835
Total liabilities and equity	4,649,819	1,042,010	939,737	1,773,423	8,404,989
Derivative Financial instruments settled on a gross basis					
Contractual amounts payable	372,850	-	-	-	372,850
Contractual amounts receivable	372,921	-	-	-	372,921

The liquidity profile of financial liabilities of the Group summarised below reflects the projected cash flows including future profit payments over the life of these financial liabilities based on contractual repayment arrangements.

	Up to three months	**3 to 6 months**	**6 months to one year**	**Over 1 year**	**Total**
	KD'000's	**KD'000's**	**KD'000's**	**KD'000's**	**KD'000's**
2024					
Financial liabilities					
Due to banks	**273,334**	**12,241**	**1,600**	**-**	**287,175**
Depositors' accounts	**4,739,344**	**1,289,268**	**1,211,566**	**283,221**	**7,523,399**
Medium term financing	**236,312**	**7,189**	**-**	**221,686**	**465,187**
	5,248,990	**1,308,698**	**1,213,166**	**504,907**	**8,275,761**
Contingent liabilities and capital commitments					
Contingent liabilities	**126,231**	**57,974**	**122,058**	**209,069**	**515,332**
Other commitments	**9,391**	**1,688**	**23,732**	**130,408**	**165,219**
	135,622	**59,662**	**145,790**	**339,477**	**680,551**

	Up to three months	3 to 6 months	6 months to one year	Over 1 year	Total
	KD'000's	KD'000's	KD'000's	KD'000's	KD'000's
2023					
Financial liabilities					
Due to banks	177,127	6,285	4,293	-	187,705
Depositors' accounts	4,461,326	1,056,591	786,348	259,516	6,563,781
Medium term financing	6,223	6,292	166,168	456,724	635,407
	4,644,676	1,069,168	956,809	716,240	7,386,893
Contingent liabilities and capital commitments					
Contingent liabilities	102,782	57,312	108,079	144,029	412,202
Other commitments	8,843	720	22,309	250,880	282,752
	111,625	58,032	130,388	394,909	694,954

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.5 Profit Rate Risk

Profit Rate Risk is the risk of losses arising as a result of adverse changes in profit rates. It refers to the current or prospective risk to the bank's capital and earnings arising from adverse movements in profit rates that affect the bank's banking book positions.

Accepting this risk is a part of normal banking activities. However, excessive profit rate risk can pose a significant threat to Group's earnings and capital base.

The goal of profit rate risk management at the Group is to ensure stability in profitability by adopting pro-active balance sheet management techniques.

30.6 Operational risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, systems failure, human error, or from external events. When controls fail to perform, it can lead to legal or regulatory implications, or financial / reputational loss.

The Group has established policies and procedures, which are applied to identify, assess, monitor, control and mitigate operational risk in addition to other types of risks relating to the banking and financial activities of the Group as part of overall risk management activities.

The operational risk of the Group is managed in line with the Central Bank of Kuwait's instructions concerning the general guidelines for internal controls and best practice for managing and supervising operational risks in banks.

30.7 Fair value of financial instruments

Fair values are obtained from quoted market prices, discounted cash flow models and other models as appropriate. The carrying values of financial instruments are approximate to their fair values as at 31 December 2024 due to relatively short-term maturity of the instruments.

Fair value of the Group's financial assets that are measured at fair value on a recurring basis.

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following tables give information about how the fair values of these financial assets are determined (in particular, the valuation techniques(s) and inputs used).

Fair value hierarchy

The table below analyses financial instruments carried at fair value by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within level 1 that are observable, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3: inputs that are not based on observable market data (unobservable inputs).

	Level 1	Level 2	Level 3	Total
2024	**KD'000's**	**KD'000's**	**KD'000's**	**KD'000's**
Financial assets at fair value through profit or loss	**2,081**	**163,563**	**-**	**165,644**
Investment in Sukuk	**1,063,896**	**-**	**-**	**1,063,896**
Financial assets at fair value through other comprehensive income	**7,915**	**-**	**14,077**	**21,992**
	1,073,892	**163,563**	**14,077**	**1,251,532**
2023				
Financial assets at fair value through profit or loss	-	132,859	-	132,859
Investment in Sukuk	886,286	-	-	886,286
Financial assets at fair value through other comprehensive income	8,310	-	13,534	21,844
	894,596	132,859	13,534	1,040,989

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.7 Fair value of financial instruments (continued)

Fair value hierarchy (continued)

The following table shows a reconciliation of the opening and closing amount of level 3 financial assets.

	At 1 January 2024	**Change in fair value**	**Additions/ transfers**	**Sale/ redemption**	**Exchange rate movements**	**At 31 December 2024**
	KD'000's	**KD'000's**	**KD'000's**	**KD'000's**	**KD'000's**	**KD'000's**
2024						
Assets measured at fair value						
Financial assets at fair value through other comprehensive income	**13,534**	**620**	**-**	**(77)**	**-**	**14,077**

	At 1 January 2023	Change in fair value	Additions/ transfers	Sale/ redemption	Exchange rate movements	At 31 December 2023
	KD'000's	KD'000's	KD'000's	KD'000's	KD'000's	KD'000's
2023						
Assets measured at fair value						
Financial assets at fair value through other comprehensive income	15,310	523	(1,794)	(505)	-	13,534

The significant unobservable inputs used in the fair value measurement categorised within Level 3 of the fair value hierarchy together with a quantitative sensitivity analysis as at 31 December 2024 are not material.

Fair values of remaining financial assets and liabilities carried at amortised cost are estimated using valuation techniques incorporating a range of input assumptions that are appropriate in the circumstances. Carrying value of financial assets and liabilities that are carried at amortised cost are not materially different from their fair values as most of these assets and liabilities are of short term maturities or are repriced immediately based on market movement in profit rates and is only used for disclosure purpose.

30.8 Capital management

The primary objectives of the Group's capital management are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains strong and healthy capital ratios in order to support its business and to maximize shareholders' value.

The Group actively manages its capital base in order to cover risks inherent in the business. The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision (BIS rules/ratios) and adopted by the Central Bank of Kuwait in supervising the Group.

The Group's regulatory capital and capital adequacy ratios for the years ended 31 December 2024 and 31 December 2023 are calculated in accordance with Central Bank of Kuwait circular numbers 2/RB, RBA/336/2014 dated 24 June 2014, related to Basel III regulations which are shown below:

	2024	2023
	KD'000's	KD'000's
Risk weighted assets	**5,884,806**	5,560,734
Capital required	**823,873**	778,502
Capital available		
Common Equity Tier 1 Capital	**844,930**	793,581
Additional Tier 1 Capital	**137,875**	136,254
Tier 1 Capital	**982,805**	929,835
Tier 2 Capital	**73,066**	69,163
Total Capital	**1,055,871**	998,998
Common Equity Tier 1 Capital Adequacy Ratio	**14.36%**	14.27%
Tier 1 Capital Adequacy Ratio	**16.70%**	16.72%
Total Capital Adequacy Ratio	**17.94%**	17.97%

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.8 Capital management *(continued)*

The Group's financial leverage ratio for the year ended 31 December 2024 is calculated in accordance with Central Bank of Kuwait circular number 2/RBA/ 343/2014 dated 21 October 2014 and is shown below:

	2024	2023
	KD'000's	KD'000's
Tier 1 Capital	**982,805**	929,835
Total Exposures	**9,815,945**	8,794,302
Financial Leverage Ratio	**10.01%**	10.57%

The disclosures relating to the capital adequacy regulations issued by Central Bank of Kuwait as stipulated in Central Bank of Kuwait's circular number 2/RB, RBA/336/2014 dated 24 June 2014 and disclosures related to financial leverage ratio as stipulated in Central Bank of Kuwait's circular number 2/RBA/ 343/2014 dated 21 October 2014 for the year ended 31 December 2024 are included under the 'Risk Management' section of the annual report.

31. DERIVATIVES

In the ordinary course of business, the Bank enters into various types of transactions that involve Sharia'a approved derivative financial instruments such as currency swaps, profit rate swaps and forward foreign exchange contracts to mitigate foreign currency and profit rate risk. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price of one or more underlying financial instruments, reference rate or index.

Currency swaps

Currency swaps is a contractual agreement between two parties to buy a Sharia'a compliant asset at an agreed price on the relevant future date in different currencies. The fixed or floating payments as well as notional amounts are exchanged in different currencies.

Profit rate swaps

Profit rate swaps are contractual agreements between two counter-parties to exchange fixed and floating payments based on a notional value in a single currency.

Forward foreign exchange contracts

Forward foreign exchange contracts are agreements to buy or sell currencies at a specified rate and at a future date.

The notional amount, disclosed gross, is the amount of a derivative's underlying asset and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year-end and are neither indicative of the market risk nor credit risk.

The fair value of Islamic derivative financial instruments included in the financial records, together with their notional amounts is summarised as follows:

	2024			2023		
	Positive fair value	**Negative fair value**	**Notional**	Positive fair value	Negative fair value	Notional
	KD'000s	**KD'000s**	**KD'000s**	KD'000s	KD'000s	KD'000s
Profit rate swaps (held as fair value hedges)	**17,590**	**(7,350)**	**796,284**	22,697	(15,387)	776,047
Cross currency swaps	**9,006**	**(1,205)**	**458,103**	786	-	308,795
Forward foreign exchange contracts	**20**	**(225)**	**46,515**	124	(820)	62,842
	26,616	**(8,780)**	**1,300,902**	23,607	(16,207)	1,147,684

All of the above Islamic derivative financial instruments are included in Level 2 of fair value hierarchy as at 31 December 2024 and 2023.

32. FIDUCIARY ASSETS

The aggregate value of assets held in a trust or fiduciary capacity by the Group as at 31 December 2024 amounted to **KD 1,024,133 thousand** (2023: KD 754,230 thousand) and the related fees and commission income from these assets amounted to **KD 4,123 thousand** (2023: KD 4,433 thousand).