

**WARBA BANK K.S.C.P.**

**CONSOLIDATED  
FINANCIAL STATEMENTS**

**31 DECEMBER 2024**



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## **INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF WARBA BANK K.S.C.P.**

### **Report on the Audit of the Consolidated Financial Statements**

#### *Opinion*

We have audited the consolidated financial statements of Warba Bank K.S.C.P. (the "Bank") and its subsidiaries (collectively 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 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 policy information.

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 the Central Bank of Kuwait (the "CBK") for use by the State of Kuwait.

#### *Basis for Opinion*

We conducted our audit in accordance with International Standards on Auditing ("ISA"). 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.

#### *Credit losses on financing facilities*

The recognition of credit losses on cash and non-cash financing facilities ("financing facilities") is the higher of Expected Credit Loss determined under International Financial Reporting Standard 9: *Financial Instruments* ("IFRS 9"), according to the CBK guidelines ("ECL"), and the provision required by the CBK rules on classification of financing facilities and calculation of their provision (the "CBK rules") as disclosed in the accounting policies in Note 2.4.4 and in Note 4 to the consolidated financial statements.



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

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

#### *Key Audit Matters (continued)*

##### *Credit losses on financing facilities (continued)*

Recognition of ECL, is a complex accounting policy, which requires considerable judgement in its implementation. ECL is dependent on management's judgement in assessing the level of credit risk on initial recognition and significant increase in credit risk subsequently on the reporting date relative to its initial recognition, and classification into three stages. Furthermore, as disclosed by management, inherently judgmental modelling techniques are used to estimate ECL which involves determining Probability of Default ("PD"), Loss Given Default ("LGD") and Exposure at Default ("EAD") which are modelled based on macroeconomic variables, and discounted to the reporting date.

On the other hand, recognition of specific provision on impaired financing facility under the CBK rules is based on the instructions prescribed by the CBK on the minimum provision to be recognised, together with any additional provision to be recognised based on management's estimate of expected cash flows related to that financing facility.

We determined that '*Credit losses on financing facilities*' is a key audit matter due to the significance of financing facilities and the related estimation uncertainty and judgement applied by management in the identification of significant increase in credit risk and consequent staging of customers; the significant judgment required by management when designing future macroeconomic scenarios; forecasting macroeconomic variables and probability-weighting scenarios.

Our audit procedures include testing the design and implementation of controls over the assessment and calculation of material significant increase in credit risk (SICR) indicators and staging of customers accordingly. We also tested the effectiveness of controls over the PD, LGD and EAD models and the design of multiple future macroeconomic scenarios, the forecasting of macroeconomic variables, and the probability-weighting of these scenarios.

With respect to the ECL based on IFRS 9, determined in accordance with the CBK guidelines, we have selected samples of financing facilities outstanding, including rescheduled financing facilities, and checked the appropriateness of the Group's determination of significant increase in credit risk and the resultant basis for classification of the financing facilities into various stages. We involved our specialists to review the ECL model in terms of key data, methods and assumptions used to ensure they are in line with the requirements of IFRS 9, determined in accordance with the CBK guidelines. For a sample of financing facilities, we have checked the appropriateness of the Group's staging criteria, EAD, PD and LGD including the eligibility and value of collateral considered in the ECL models used by the Group. We have also checked the consistency of various inputs and assumptions used by the Group's management to determine ECL.



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

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

#### *Key Audit Matters (continued)*

##### *Credit losses on financing facilities (continued)*

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 financing facilities, we have verified whether all impairment events have been identified by the Group's management. For the selected samples which also included impaired financing facilities, we have assessed the valuation of collateral and checked the resultant provision calculations.

##### *Other information included in the Group's 2024 Annual Report*

Management is responsible for the other information. Other information consists of the information included in the Group's 2024 Annual Report, 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 2024 Annual Report after the date of our auditors' report.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance 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 in this other information; we are required to report that fact. We have nothing to report in this regard.

##### *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 IFRS Accounting Standards as adopted by the 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 ISA 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.



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

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

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

As part of an audit in accordance with ISA, 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 management.
- ▶ 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 consolidated 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.



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## INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF WARBA 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 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, and 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.

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BADER A. AL-ABDULJADER  
LICENCE NO. 207-A  
EY  
(AL AIBAN, AL OSAIMI & PARTNERS)

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

10 February 2025  
Kuwait

Warba Bank K.S.C.P.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2024

	Notes	2024 KD'000	2023 KD'000
<b>ASSETS</b>			
Cash and bank balances	3	456,581	207,811
Placements with banks and the CBK		385,084	425,786
Financing receivables	4	3,642,603	3,452,952
Financial assets at fair value through profit or loss	5	198,914	162,253
Financial assets at fair value through other comprehensive income	6	381,560	369,934
Investment in joint ventures	7	118,791	119,271
Investment properties	8	39,544	1,675
Other assets		52,215	76,514
Property and equipment		18,480	16,013
<b>TOTAL ASSETS</b>		<b>5,293,772</b>	<b>4,832,209</b>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
Due to banks and other financial institutions	9	1,332,641	1,162,849
Depositors' accounts	10	3,149,067	2,907,145
Sukuk issued	11	308,304	304,331
Other liabilities		92,010	66,688
<b>TOTAL LIABILITIES</b>		<b>4,882,022</b>	<b>4,441,013</b>
<b>EQUITY</b>			
Share capital	12	218,360	206,000
Share premium		80,375	80,375
Statutory reserve	12	11,225	8,871
Fair value reserve		(2,694)	(4,517)
Foreign currency translation reserve		579	1,175
Retained earnings		14,995	11,124
Proposed dividend	12	13,102	12,360
<b>EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE BANK</b>		<b>335,942</b>	<b>315,388</b>
Perpetual Tier 1 Sukuk	13	75,808	75,808
<b>TOTAL EQUITY</b>		<b>411,750</b>	<b>391,196</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>5,293,772</b>	<b>4,832,209</b>

  
Hamad M. Al Sayer  
Chairman

  
Shaheen H. Al Ghanem  
Chief Executive Officer

The accompanying notes 1 to 27 form an integral part of these consolidated financial statements.

Warba Bank K.S.C.P.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2024

	<i>Notes</i>	<b>2024</b> <b>KD'000</b>	<b>2023</b> <b>KD'000</b>
Placements and finance income		<b>244,859</b>	224,809
Finance costs and distribution to depositors		<b>(190,070)</b>	(180,782)
<b>Net finance income</b>		<b>54,789</b>	44,027
Net investment income	14	<b>10,607</b>	10,845
Net fees and commission income	15	<b>7,734</b>	5,283
Other income		<b>2,728</b>	3,074
Foreign exchange gain		<b>4,448</b>	893
<b>Net operating income</b>		<b>80,306</b>	64,122
Staff costs		<b>(29,124)</b>	(26,448)
General and administrative expenses		<b>(9,707)</b>	(8,709)
Depreciation expense		<b>(7,526)</b>	(5,783)
<b>Net operating expenses</b>		<b>(46,357)</b>	(40,940)
<b>Net operating profit before provision for impairment and credit losses</b>		<b>33,949</b>	23,182
Provision for impairment and credit losses	16	<b>(10,408)</b>	(2,508)
<b>Profit before tax and board of directors' remuneration</b>		<b>23,541</b>	20,674
Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)		<b>(212)</b>	(186)
National Labour Support Tax (NLST)		<b>(618)</b>	(543)
Zakat		<b>(243)</b>	(212)
Board of directors' remuneration		<b>(66)</b>	(66)
<b>NET PROFIT FOR THE YEAR</b>		<b>22,402</b>	19,667
<b>BASIC AND DILUTED EARNINGS PER SHARE (EPS)</b>	17	<b>8.85 fils</b>	7.60 fils

The accompanying notes 1 to 27 form an integral part of these consolidated financial statements.

Warba Bank K.S.C.P.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2024

	Notes	2024 KD'000	2023 KD'000
<b>Net profit for the year</b>		<b>22,402</b>	19,667
<b>Other comprehensive income (loss)</b>			
<i>Other comprehensive income (loss) that will be reclassified subsequently to profit or loss:</i>			
<i>Debt instruments at fair value through other comprehensive income:</i>			
Net change in fair value		<b>4,087</b>	7,245
Changes in allowance for expected credit losses	16	<b>(93)</b>	212
Reclassification to profit or loss	14	<b>(1,599)</b>	(336)
Net gains on debt instruments at fair value through other comprehensive income		<b>2,395</b>	7,121
Exchange differences on translation of foreign operations		<b>(554)</b>	1,415
Share of other comprehensive loss of investment in joint venture	7	<b>(438)</b>	(129)
Net exchange differences recycled to profit or loss on derecognition of investment in a joint venture		<b>(42)</b>	36
<b>Total items that are or may be reclassified to profit or loss</b>		<b>1,361</b>	8,443
<i>Other comprehensive loss that will not be reclassified to profit or loss subsequently</i>			
Net change in fair value of equity investments at fair value through other comprehensive income		<b>(134)</b>	(1,750)
<b>Total items that will not be reclassified to profit or loss</b>		<b>(134)</b>	(1,750)
<b>OTHER COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>1,227</b>	6,693
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>23,629</b>	26,360

The accompanying notes 1 to 27 form an integral part of these consolidated financial statements.

Warba Bank K.S.C.P.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2024

	<i>Share capital KD'000</i>	<i>Share premium KD'000</i>	<i>Statutory reserve KD'000</i>	<i>Fair value reserve KD'000</i>	<i>Foreign currency translation reserve KD'000</i>	<i>Retained earnings KD'000</i>	<i>Sub-total KD'000</i>	<i>Proposed dividend KD'000</i>	<i>Equity attributable to shareholders of the Bank KD'000</i>	<i>Perpetual Tier 1 Sukuk KD'000</i>	<i>Total equity KD'000</i>
<b>As at 1 January 2024</b>	<b>206,000</b>	<b>80,375</b>	<b>8,871</b>	<b>(4,517)</b>	<b>1,175</b>	<b>11,124</b>	<b>303,028</b>	<b>12,360</b>	<b>315,388</b>	<b>75,808</b>	<b>391,196</b>
Net profit for the year	-	-	-	-	-	22,402	22,402	-	22,402	-	22,402
Other comprehensive income (loss)	-	-	-	1,823	(596)	-	1,227	-	1,227	-	1,227
Total comprehensive income for the year (loss)	-	-	-	1,823	(596)	22,402	23,629	-	23,629	-	23,629
Issue of bonus shares (Note 12)	12,360	-	-	-	-	-	12,360	(12,360)	-	-	-
Cash dividends (Note 12)	-	-	-	-	-	-	-	-	-	-	-
Transferred to the statutory reserve (Note 12)	-	-	2,354	-	-	(2,354)	-	-	-	-	-
Profit paid on Perpetual Tier 1 Sukuk (Note 13)	-	-	-	-	-	(3,075)	(3,075)	-	(3,075)	-	(3,075)
Proposed dividend (Note 12)	-	-	-	-	-	(13,102)	(13,102)	13,102	-	-	-
<b>At 31 December 2024</b>	<b>218,360</b>	<b>80,375</b>	<b>11,225</b>	<b>(2,694)</b>	<b>579</b>	<b>14,995</b>	<b>322,840</b>	<b>13,102</b>	<b>335,942</b>	<b>75,808</b>	<b>411,750</b>
<b>As at 1 January 2023</b>	<b>200,000</b>	<b>80,375</b>	<b>6,803</b>	<b>(9,759)</b>	<b>(276)</b>	<b>8,966</b>	<b>286,109</b>	<b>12,000</b>	<b>298,109</b>	<b>75,808</b>	<b>373,917</b>
Net profit for the year	-	-	-	-	-	19,667	19,667	-	19,667	-	19,667
Other comprehensive income	-	-	-	5,242	1,451	-	6,693	-	6,693	-	6,693
Total comprehensive income for the year	-	-	-	5,242	1,451	19,667	26,360	-	26,360	-	26,360
Issue of bonus shares (Note 12)	6,000	-	-	-	-	-	6,000	(6,000)	-	-	-
Cash dividends (Note 12)	-	-	-	-	-	-	-	(6,000)	(6,000)	-	(6,000)
Transferred to the statutory reserve (Note 12)	-	-	2,068	-	-	(2,068)	-	-	-	-	-
Profit paid on Perpetual Tier 1 Sukuk (Note 13)	-	-	-	-	-	(3,081)	(3,081)	-	(3,081)	-	(3,081)
Proposed dividend (Note 12)	-	-	-	-	-	(12,360)	(12,360)	12,360	-	-	-
<b>At 31 December 2023</b>	<b>206,000</b>	<b>80,375</b>	<b>8,871</b>	<b>(4,517)</b>	<b>1,175</b>	<b>11,124</b>	<b>303,028</b>	<b>12,360</b>	<b>315,388</b>	<b>75,808</b>	<b>391,196</b>

The accompanying notes 1 to 27 form an integral part of these consolidated financial statements.

Warba Bank K.S.C.P.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2024

	Notes	2024 KD'000	2023 KD'000
<b>OPERATING ACTIVITIES</b>			
Profit before tax and board of directors' remuneration		23,541	20,674
<i>Adjustments for:</i>			
Net investment income	14	(10,607)	(10,845)
Gain on de-recognition of leases		(230)	-
Provision for employees' end of service benefits		1,438	1,227
Depreciation expense		7,526	5,783
Provision for impairment and credit losses	16	10,408	2,508
		<u>32,076</u>	<u>19,347</u>
<i>Changes in operating assets and liabilities:</i>			
Placements with banks and the CBK		25,920	(41,730)
Financing receivables		(197,640)	(307,840)
Other assets		23,828	(7,518)
Due to banks and other financial institutions		169,792	370,083
Depositors' accounts		241,922	232,663
Other liabilities		25,789	10,271
End of service benefits paid		(261)	(269)
Taxes paid		(1,124)	(743)
		<u>320,302</u>	<u>274,264</u>
<b>Net cash flows from operating activities</b>			
<b>INVESTING ACTIVITIES</b>			
Purchase/ capital contributions of financial assets at FVTPL		(47,723)	(27,505)
Proceeds from sale/ redemption of financial assets at FVTPL		19,907	6,753
Purchase of financial assets at FVOCI		(289,377)	(205,014)
Proceeds from sale of financial assets at FVOCI		280,530	137,772
Additions to investment in joint ventures		(13,949)	(15,338)
Proceeds from sale/ redemption of investment in joint ventures		3,854	578
Purchase of an investment property		(35,931)	-
Proceeds from sale of an investment property		-	1,650
Purchase of property and equipment		(5,507)	(3,338)
Dividends received from financial assets		5,871	4,241
Other investment income received		331	502
Distributions received from joint ventures		1,159	4,463
Rental income received		447	83
		<u>(80,388)</u>	<u>(95,153)</u>
<b>Net cash flows used in investing activities</b>			
<b>FINANCING ACTIVITIES</b>			
Proceeds from issuance of Sukuk		152,950	-
Repayment of Sukuk		(152,450)	-
Payment of lease liabilities		(3,400)	(4,487)
Profit paid to holders of Perpetual Tier 1 Sukuk		(3,075)	(3,081)
Cash dividends paid	12	-	(5,150)
		<u>(5,975)</u>	<u>(12,718)</u>
<b>Net cash flows used in financing activities</b>			
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>			
Cash and cash equivalents at 1 January		468,862	302,469
		<u>702,801</u>	<u>468,862</u>
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>			
<b>Additional information on operational cash flows</b>			
Finance costs paid		(189,874)	(169,896)
Finance income received		258,703	215,723

The accompanying notes 1 to 27 form an integral part of these consolidated financial statements.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2024

**1 CORPORATE INFORMATION**

Warba Bank K.S.C.P. (the “Bank”) is a Kuwaiti public shareholding company, incorporated on 17 February 2010 in the State of Kuwait by virtue of Amiri Decree No. 289/2009. The Bank is registered as an Islamic banking institution in accordance with the rules and regulations of the Central Bank of Kuwait (the “CBK”) on 7 April 2010 and its shares are publicly traded on the Boursa Kuwait. The Bank’s head office is located at Al-Raya Tower, Mezzanine floor 1, Omar Ibn Al-Khattab Street and its registered postal address is P.O. Box 1220, Safat 13013, State of Kuwait.

The Bank is primarily involved in corporate, retail and investment banking activities in accordance with the principles of Islamic Sharī‘a, as approved by the Bank’s Sharī‘a Supervisory Board.

The annual general assembly meeting (“AGM”) of the shareholders of the Bank held on 31 March 2024 approved the consolidated financial statements for the year ended 31 December 2023. Distributions proposed by the Board of Directors and approved by the shareholders of the Bank for the year then ended are provided in Note 12.

The consolidated financial statements of the Bank and its wholly owned special purpose vehicles (collectively, the “Group”) for the year ended 31 December 2024 were authorised for issue in accordance with a resolution of the Board of Directors on 12 January 2025. The shareholders of the Bank have the power to amend these consolidated financial statements in the AGM.

**2.1 BASIS OF PREPARATION**

The consolidated financial statements have 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 International Financial Reporting Standards (“IFRS Accounting Standards”) as issued by International Accounting Standards Board (IASB) with the following amendments:

- (i) Expected credit loss (“ECL”) to be measured at the higher of ECL provision on financing facilities computed under IFRS 9 – *Financial Instruments* (“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 hereinafter referred to as ‘IFRS Accounting Standards as adopted by CBK for use by the State of Kuwait’.

The consolidated financial statements have been prepared on a historical cost basis except for financial assets designated at fair value through profit or loss (“FVTPL”), debt and equity instruments at fair value through other comprehensive income (FVOCI), investment properties and forward currency swaps, all of which have been measured at fair value.

The Bank presents its consolidated statement of financial position in order of liquidity based on the Bank’s intention and perceived ability to recover/settle the majority of assets/liabilities of the corresponding financial statement line item. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 20.

The consolidated financial statements are presented in Kuwaiti Dinars (KD) which is also the Group’s functional currency. All values are rounded to the nearest thousand (KD ‘000), except when otherwise indicated.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2024

**2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES**

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

**2.2.1 New standards, interpretations, and amendments adopted by the Group**

The Group applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2024 (unless otherwise stated). The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

**Amendments to IFRS 16 - Lease Liability in a Sale and Leaseback**

The amendments in IFRS 16 specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction, to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains.

The amendments had no impact on the Group's consolidated financial statements.

**Amendments to IAS 1 - Classification of Liabilities as Current or Non-current**

The amendments to IAS 1 specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

In addition, an entity is required to disclose when a liability arising from a loan agreement is classified as non-current and the entity's right to defer settlement is contingent on compliance with future covenants within twelve months.

The amendments had no impact on the Group's consolidated financial statements.

**Supplier Finance Arrangements - Amendments to IAS 7 and IFRS 7**

The amendments to *IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures* clarify the characteristics of supplier finance arrangements and require additional disclosure of such arrangements. The disclosure requirements in the amendments are intended to assist users of financial statements in understanding the effects of supplier finance arrangements on an entity's liabilities, cash flows and exposure to liquidity risk.

The amendments had no material impact on the Group's consolidated financial statements.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2024

**2.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE**

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below.

***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 Group is currently not intending to early adopt the Amendments.

With respect to the amendments on the derecognition of financial liabilities that are settled through an electronic payment system, the Group is currently performing an assessment of all material electronic payment systems utilised in the various jurisdictions it operates, in order to assess whether the amendments will result in a material change with respect to current practices and whether it meets the conditions to apply the accounting policy option to derecognise such financial liabilities before the settlement date. Moreover, the Group is reviewing all its other payment systems (such as cheques, credit cards, debit cards) to ensure that the corresponding financial assets are derecognised when the right to cash flows are extinguished and that the corresponding financial liabilities are derecognised on settlement date.

In addition, the Group is assessing the impact of the Amendments on its financial assets that include environmental, social and governance (ESG)-linked features and other similar contingent features, as well as on non-recourse financing and contractually linked instruments. Based on the initial assessment performed, the amendments in these areas are not expected to have a material impact on the consolidated financial statements, however, the assessment is yet to be concluded.

***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.

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 (PFS) 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 Group is currently working to identify all impacts the amendments will have on the consolidated financial statements.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

As at and for the year ended 31 December 2024

**2.4 SUMMARY OF MATERIAL ACCOUNTING POLICIES**

The Group has consistently applied the following accounting policies to all periods presented in these consolidated financial statements.

**2.4.1 Basis of consolidation**

The consolidated financial statements comprise the financial statements of the Bank and its wholly owned special purpose vehicles (investees which are controlled by the Bank) as at 31 December 2024. Control is achieved when the Group 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.

Specifically, the Group controls an investee if, and only if, the Group has:

- ▶ Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- ▶ Exposure to or an accrual of variable returns from its involvement with the investee; and
- ▶ The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- ▶ The contractual arrangement with the other vote holders of the investee;
- ▶ Rights arising from other contractual arrangements; and
- ▶ The Group's voting rights and potential voting rights.

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 wholly owned special purpose vehicle begins when the Group obtains control over the wholly owned special purpose vehicle and ceases when the Group loses control of the wholly owned special purpose vehicle. Assets, liabilities, income and expenses of a wholly owned special purpose vehicle acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the wholly owned special purpose vehicle.

Profit or loss and each component of OCI are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a wholly owned special purpose vehicle, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a wholly owned special purpose vehicle, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

The consolidated financial statements include the financial statements of the Bank and its wholly owned special purpose vehicles. The wholly owned special purpose vehicles of the Bank are as follows:

<i>Name of subsidiary</i>	<i>Principal activities</i>	<i>Country of incorporation</i>	<i>Equity interest %</i>	
			<i>2024</i>	<i>2023</i>
Themar Al Omania Company L.L.C.	Real estate	Sultanate of Oman	<b>100</b>	100
Warba Tier 1 (2) Sukuk Limited	Financial securities	Cayman Islands	<b>100</b>	100
Warba Advisory Ltd.	Corporate Management Services	Cayman Islands	<b>100</b>	100
Nasima Tower Investment L.L.C.	Investment in Commercial Enterprises & Management	United Arab Emirates	<b>100</b>	-

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2024

**2.4 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)**

**2.4.2 Financial instruments – initial recognition**

*2.4.2.1 Date of recognition*

Financial assets and liabilities, with the exception of financing receivable and depositors' accounts, are initially recognised on the trade date, i.e., the date that the Group becomes a party to the contractual provisions of the instrument. This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Financing to customers are recognised when funds are transferred to the customers' accounts. The Group recognises depositors' accounts when funds are transferred to the Group.

*2.4.2.2 Initial measurement of financial instruments*

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value except in the case of financial assets and liabilities recorded at FVTPL, transaction costs are added to, or subtracted from, this amount.

*2.4.2.3 Day 1 profit or loss*

When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Group recognises the difference between the transaction price and fair value in the investment income. In those cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in profit or loss when the inputs become observable, or when the instrument is derecognised.

*2.4.2.4 Determining the classification and measurement of financial assets and liabilities*

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

▶ *Cash and cash equivalents*

Cash and cash equivalents as referred to in the consolidated statement of cash flows comprises cash on hand, non-restricted current accounts with central banks and placements with banks on demand or with an original maturity of three months or less.

▶ *Placements with banks, financing receivables, financial investments at amortised cost*

The Group only measures placements with banks, financing receivables and other financial investments at amortised cost if both of the following conditions are met:

- ▶ The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows;
- ▶ The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit (SPPP) on the principal amount outstanding.

Debt instruments at amortised cost are subsequently measured at amortised cost using the effective yield method adjusted for impairment losses, if any. Profit income, foreign exchange gains and losses and impairment are recognised in the consolidated statement of profit or loss. Any gain or loss on derecognition is recognised in the consolidated statement of profit or loss.

The details of these conditions are outlined below.

*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 recognised. Murabaha is a financial asset originated by the Group.

*Ijara*

The lease contract is concluded between the Group (the lessor) and the customer (the lessee), whereby the Group achieves a return by charging rents on the leased assets to the customers.

*Tawarruq*

It is a product in which a customer buys goods from the Group on a deferred payment basis and then sells them immediately for cash to another party.

**2.4 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)**

**2.4.2 Financial instruments – initial recognition (continued)**

*2.4.2.4 Determining the classification and measurement of financial assets and liabilities (continued)*

*Mudaraba*

It is an agreement between two parties whereby one of them provides funds (rabb al-mal) and the other makes efforts and provides expertise (mudarib) and he is responsible for investing these funds in a specific company or special activity in exchange for a pre-agreed percentage of the mudaraba revenues if there are profits, while in the event of a normal loss, the rabb al-mal will bear the loss of his money while the mudarib will bear the loss of his efforts. However, in case of negligence or breach of any of the terms and conditions of the mudaraba agreement, only the mudarib will bear the losses. The Group acts as a mudarib when accepting funds from depositors and as a rabb al-mal when investing these funds on a mudaraba basis.

*Wakala*

Wakala is an agreement whereby the Group provides an amount of money to a client under a wakala agreement, who invests this amount according to specific conditions in exchange for agreed fees. The agent is obligated to return the amount in case of negligence or violation of any of wakala's terms and conditions.

*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:

- ▶ How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- ▶ The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- ▶ How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected); and
- ▶ The expected frequency, value and timing of sales are also important aspects of the Group's assessment.

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.

*The SPPP test*

As a second step of its classification process the Group assesses the contractual terms of the financial asset 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 (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of profit within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPP assessment, the Group applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the profit rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and profit on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2024

**2.4 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)**

**2.4.2 Financial instruments – initial recognition (continued)**

*2.4.2.4 Determining the classification and measurement of financial assets and liabilities (continued)*

▶ *Debt instruments at FVOCI*

The Group applies the new category under IFRS 9 of debt instruments measured at FVOCI when both of the following conditions are met:

- ▶ The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets ; and
- ▶ The contractual terms of the financial asset meet the SPPP test.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Profit returns and foreign exchange gains, losses and ECL are recognised in profit or loss in the same manner as for financial assets measured at amortised cost. The ECL calculation for Debt instruments at FVOCI is explained below. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the consolidated statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon derecognition of the assets.

▶ *Equity instruments at FVOCI*

Upon initial recognition, the Group occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when 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 instruments 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 cumulative changes in fair values as part of equity (fair value reserve). Cumulative gains 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 instruments 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 instruments at FVOCI are not subject to impairment assessment.

▶ *Financial assets and financial liabilities at fair value through profit or loss (FVTPL)*

Financial assets and financial liabilities in this category are those that are not held for trading and have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9. Management only designates an instrument at FVTPL upon initial recognition when one of the following criteria are met. Such designation is determined on an instrument-by-instrument basis:

- ▶ The designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis; or
- ▶ The liabilities (and assets until 1 January 2018 under IAS 39) are part of a group of financial liabilities (or financial assets, or both under IAS 39), which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- ▶ The liabilities (and assets until 1 January 2018 under IAS 39) contain one or more embedded derivatives, unless they do not significantly modify the cash flows that would otherwise be required by the contract, or it is clear with little or no analysis when a similar instrument is first considered that separation of the embedded derivative(s) is prohibited.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2024

**2.4 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)**

**2.4.2 Financial instruments – initial recognition (continued)**

*2.4.2.4 Determining the classification and measurement of financial assets and liabilities (continued)*

▶ *Financial liabilities other than at fair value through profit or loss*

These financial liabilities are subsequently measured at amortised cost using the effective profit rate method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective profit rate.

Due to banks and other financial institutions, depositors' accounts and sukuk issued are classified as "financial liabilities other than at fair value through profit or loss".

▶ *Financial guarantees, letters of credit and undrawn loan commitments*

The Group issues financial guarantees, letters of credit and loan commitments.

Financial guarantees are initially recognised in the financial statements at fair value, being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the consolidated statement of profit or loss, and from 1 January 2018 the higher of ECL under IFRS 9 according to the CBK guidelines, and the provisions required by the CBK.

The premium received is recognised in the consolidated statement of profit or loss in net fees and commission income on a straight line basis over the life of the guarantee.

**2.4.3 Financial instruments - Derecognition of financial assets and liabilities**

A financial asset (or where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- ▶ The rights to receive cash flows from the asset have expired, or
- ▶ The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same financier on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the consolidated statement of profit or loss.

*De-recognition due to substantial modification or terms and conditions*

The Group derecognises a financial asset, such as financing receivables, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new finance, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised financing receivables are classified as Stage 1 for ECL measurement purposes, unless they are deemed to be credit impaired.

**2.4 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)**

**2.4.3 Financial instruments - Derecognition of financial assets and liabilities (continued)**

When assessing whether or not to derecognise a financing receivable, amongst others, the Group considers the following factors:

- ▶ Change in currency of the financing;
- ▶ Introduction of an equity instrument feature;
- ▶ Change in counterparty; and
- ▶ If the modifications are such that, the instrument would no longer meet the SPPP criterion.

If the modifications do not result in cash flows that are substantially different, they result in derecognition. Based on the change in cash flows discounted at original effective profit rate, the Group records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

**2.4.4 Impairment of financial assets**

**2.4.4.1 Expected credit loss of financial assets under IFRS 9 according to the CBK guidelines**

The Expected Credit Loss (ECL) model applies to financial assets measured at amortised cost, contract assets and debt instruments at FVOCI. The credit losses are based on ECL associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since initial recognition. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the credit loss is based on the change in ECL over the life of the asset.

The Group measures ECL for financing receivables, non-cash credit facilities in the form of bank guarantees, letters of guarantee, documentary letters of credit, undrawn cash and non-cash credit facilities (revocable and irrevocable) (together “financing facilities”), placements with banks and investment in debt instruments measured at FVOCI.

The Group considers balances with the CBK and Sukuk issued by the CBK and the Government of Kuwait have low credit risk based on external credit ratings of the counterparties and hence ECL is considered negligible. Equity investments are not subject to ECL.

The Group considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties and CBK guarantee of deposits placed with local banks.

The Group provides for credit losses on financing facilities according to the CBK guidelines and records the provision for impairment of financing facilities at 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 ECL as described below:

**Stage 1: 12-month ECL**

The Group measures loss allowances at an amount equal to 12-month ECL on financial assets where there has not been a material 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 its 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 on financial assets determined as a credit impaired based on an objective evidence on impairment at an amount equal to 100% of net exposure i.e. after deduction of approved collaterals in accordance with CBK guidelines.

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2024

**2.4 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)**

**2.4.4 Impairment of financial assets (continued)**

**2.4.4.1 Expected credit loss of financial assets under IFRS 9 according to the CBK guidelines (continued)**

*Determining the stage of 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 more than 30 days past due 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.

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 credit 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 more than 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;
- ▶ 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; or
- ▶ 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 ECL*

ECL is the probability weighted estimate of credit losses and is 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, forward looking macroeconomic scenarios as well as other factors. These measures are adjusted to be in line with IFRS Accounting Standards as adopted by CBK for use by the State of Kuwait.

*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 for financial assets carried at amortised cost. In the case of debt instruments measured at FVOCI, the Group recognises the ECL charge in the consolidated statement of profit or loss and a corresponding amount is recognised in other comprehensive income with no reduction in the carrying amount of the financial asset in the consolidated statement of financial position.

*Incorporation of forward-looking information*

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The Group has performed historical analysis and identified the key economic variables impacting credit risk and ECL. Relevant macro-economic adjustments are applied to capture variations from economic scenarios. These reflect reasonable and supportable forecasts of future macro-economic conditions that are not captured within the base ECL calculations. Macro-economic factors taken into consideration include, but are not limited to, gross domestic product, commodity price index and equity price index and require an evaluation of both the current and forecast direction of the macro-economic cycle. Incorporating forward-looking information increases the degree of judgement required as to how changes in these macro-economic factors will affect ECL. The methodologies and assumptions including any forecasts of future economic conditions are reviewed regularly.

**2.4 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)**

**2.4.4 Impairment of financial assets (continued)**

**2.4.4.1 Expected credit loss of financial assets under IFRS 9 according to the CBK guidelines (continued)**

*Multiple forward-looking scenarios*

The Group determines its allowance for credit losses using four probability-weighted forward-looking scenarios. The Group considers both internal and external sources of information and data in order to achieve an unbiased projections and forecasts. The Group prepares the scenarios using forecasts. The forecasts are created using internal and external models which are modified by Group as necessary to formulate a ‘Baseline’ view of the most probable future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. The process involves the development of two additional economic scenarios (Upturn, and Downturn) and consideration of the relative probabilities of each outcome.

The ‘baseline’ represents the most likely outcome and is aligned with information used by the Group for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macroeconomic variables, credit risk, and credit losses.

*Renegotiated financing receivables*

In the event of a default, the Group seeks to restructure financing to customers rather than take possession of collateral. This may involve extending the payment arrangements and the agreement of new financing conditions. When the financing to customers has been renegotiated or modified but not derecognised, any impairment is measured using the original effective profit rate method as calculated before the modification of terms. Management continually reviews renegotiated financing 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.

**2.4.4.2 Provisions for credit losses in accordance with the CBK instructions**

The Group is required to calculate provisions for credit losses on financing receivables in accordance with the CBK instructions with respect to financing receivables and the calculation of provisions. Financing receivables 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 financing receivable 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 financing receivables are managed and monitored as irregular facilities and are classified into the following four categories which are then used to determine the provisions:

<i>Category</i>	<i>Criteria</i>	<i>Specific provision</i>
Watch list	Irregular for a period up to 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%

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.

Minimum general provisions of 1% on cash facilities and 0.5% on non-cash facilities are made on all applicable financing receivables (net of certain restricted categories of collateral) which are not subject to specific provisioning.

**2.4.5 Write-offs**

Financial assets are written off either partially or in their entirety only when the Group has no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to other income.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2024

**2.4 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)**

**2.4.6 Offsetting**

Financial assets and financial liabilities are only offset and the net amount reported in the consolidated financial position when there is a legally enforceable right to set off the recognised amounts and the Group intends to settle on a net basis so as to realise the assets and liabilities simultaneously.

**2.4.7 Derivative financial instruments and hedge accounting**

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; and
- ▶ 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.

*Cash flow hedges*

The cash flow hedges hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability, a highly probable transaction or foreign exchange risks within an unrecognised firm commitment.

In accordance with its wider risk management, it is the Group’s strategy to apply cash flow hedge accounting to keep its profit rate and foreign currency revaluation fluctuations within its established limits. Applying cash flow hedge accounting enables the Group to reduce the cash flow fluctuations arising from foreign exchange and profit rate risk on an instrument or group of instruments, or to hedge profit rate mismatches on a portfolio level from its floating liabilities including future issuances. From an accounting point of view, a cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability (such as all or some future profit payments on variable rate debt) or a highly probable forecast transaction and could affect profit or loss.

For designated and qualifying cash flow hedges, the effective portion of the cumulative gain or loss on the hedging instrument is initially recognised directly in OCI within equity (*cash flow hedge reserve*). The ineffective portion of the gain or loss on the hedging instrument is recognised immediately in profit or loss.

When the hedged cash flow affects the statement of profit or loss, the effective portion of the gain or loss on the hedging instrument is recorded in the corresponding income or expense line of the 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 OCI at that time remains in OCI and is recognised when the hedged forecast transaction is ultimately recognised in the statement of profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in OCI is immediately transferred to the consolidated statement of profit or loss.

To test the hedge effectiveness, the Group compares the changes in the fair value of the hedging instruments against the changes in fair value of the hedged items attributable to the hedged risk (e.g., changes in the forward exchange rates or profit rate risk).

The possible sources of ineffectiveness for cash flow hedges are generally the same as for those for fair value hedges, described above. However, for cash flow hedges, prepayment risk is less relevant, and the causes of hedging ineffectiveness arise from the changes in the timing and the amount of forecast future cash flows.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2024

**2.4 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)**

**2.4.8 Investment in joint ventures**

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The considerations made in determining joint control are similar to those necessary to determine control over subsidiaries. The Group's investment in its joint ventures are accounted for using the equity method.

Under the equity method, the investment in joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the joint venture since the acquisition date. Goodwill relating to the joint venture is included in the carrying amount of the investment and is not tested for impairment separately.

The consolidated statement of profit or loss reflects the Group's share of the results of operations of the joint venture. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the joint venture are eliminated to the extent of the interest in the joint venture.

The financial statements of the joint ventures are prepared with three months gap from the reporting period of the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value, and then recognises the loss in the consolidated statement of profit or loss.

Upon loss of joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the joint venture upon loss of joint control and the fair value of the retained investment and proceeds from disposal is recognised in the consolidated statement of profit or loss.

**2.4.9 Investment properties**

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the consolidated statement of profit or loss in the period in which they arise, including the corresponding tax effect. Fair values are determined based on an annual valuation performed by an accredited external independent valuer using appropriate valuation techniques.

Investment properties are derecognised either when they have been disposed of (i.e., at the date the recipient obtains control) or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the consolidated statement of profit or loss in the period of derecognition. In determining the amount of consideration from the derecognition of investment property the Group considers the effects of variable consideration, existence of a significant financing component, non-cash consideration, and consideration payable to the buyer (if any).

Transfers are made to (or from) investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

**2.4.10 Property and equipment**

Property and equipment are stated at historical cost less accumulated depreciation and any impairment in value. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2024

**2.4 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)**

**2.4.10 Property and equipment (continued)**

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in the consolidated statement of profit or loss as incurred.

Land is not depreciated. Depreciation of other property and equipment items is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives, as follows:

▶ Buildings	40 years
▶ Furniture, fixtures and equipment	5 years
▶ Motor vehicles	5 years
▶ Leasehold Improvements	5 years
▶ Computer hardware and software	5 years
▶ Key Money	10 years

An item of property, and equipment and any significant part initially recognised is derecognised upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of profit or loss when the asset is derecognised.

The residual values, useful lives and methods of depreciation of property and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

**2.4.11 Impairment of non-financial assets**

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit (CGU) fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on most recent budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated statement of profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

Goodwill is tested for impairment annually as at the reporting date and when circumstances indicate that the carrying value may be impaired.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2024

**2.4 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)**

**2.4.11 Impairment of non-financial assets (continued)**

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

**2.4.12 End of service benefits**

The Group provides for end of service benefits to all of its employees as per the Kuwaiti Labor Law. The entitlement to the benefits is based upon the employee's final salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

**2.4.13 Revenue recognition**

Revenue is recognised either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised goods or services to its customers.

*Rental income*

The Group is the lessor in operating leases. Rental income arising from operating leases on investment property is accounted for on a straight-line basis over the lease terms.

*Fees and commission income*

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income, and other management and advisory fees.

The Group earns fees and commission income from a diverse range of financial services it provides to its customers. Fees and commission income is recognised at an amount that reflects the consideration to which the Group expects to be entitled in exchange for providing the services.

The performance obligations, as well as the timing of their satisfaction, are identified, and determined, at the inception of the contract. The Group's revenue contracts do not typically include multiple performance obligations.

When the Group provides a service to its customers, consideration is invoiced and generally due immediately upon satisfaction of a service provided at a point in time or at the end of the contract period for a service provided over time.

The Group has generally concluded that it is the principal in its revenue arrangements because it typically controls the services before transferring them to the customer.

*Finance income*

Finance income includes income from Wakala, Murabaha and Ijara investments and is calculated using effective profit rate method.

*Dividend income*

Dividend income is recognised when the right to receive payment is established.

*Net investment income*

Net investment income includes all gains and losses from changes in fair value and dividends.

**2.4.14 Government grants**

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

When the Group receives grants of non-monetary assets, the asset and the grant are recorded at nominal amounts and released to profit or loss over the expected useful life of the asset, based on the pattern of consumption of the benefits of the underlying asset by equal annual instalments.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2024

**2.4 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)**

**2.4.15 Foreign currency translation**

*Functional and presentational currency*

The consolidated financial statements are presented in KD. For each entity in the group, the Bank determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group uses the direct method of consolidation.

*Transactions and balances*

Transactions in foreign currencies are initially recorded in the functional currency at the spot rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated into the functional currency at the spot rate of exchange at the reporting date. All foreign exchange differences arising on non-trading activities are taken to foreign exchange gain/(loss) in the consolidated statement of profit or loss.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the spot exchange rates as at the date of recognition.

*Group companies*

On consolidation, the assets and liabilities in foreign operations are translated into KD at the spot rate of exchange prevailing at the reporting date and their income statements are translated at spot exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in OCI.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations, and are translated at the closing rate of exchange.

**2.4.16 Taxation**

*National Labour Support Tax (NLST)*

The Group calculates the NLST in accordance with Law No. 19/2000 and the Ministry of Finance resolution No. 24/2006 at 2.5% of taxable profit for the year. As per the law, cash dividends from listed companies which are subjected to NLST has to be deducted from the profit for the year.

*Provision of Kuwait Foundation for the Advancement of Sciences (KFAS)*

The Group calculates the contribution to KFAS at 1% of profit for the year in accordance with the modified calculation based on the Foundation's Board of Directors resolution, which states that the transfer to statutory reserve should be excluded from profit for the year when determining the contribution.

The Group has a payable balance to KFAS of KD 212 thousand included under other liabilities in the consolidated statement of financial position which will be paid subsequent to the year end.

*Zakat*

Contribution to Zakat is calculated at 1% of the Group in accordance with the Ministry of Finance resolution No. 58/2007 effective from 10 December 2007.

**2.4.17 Segment information**

A segment is a distinguishable component of the Group that engages in business activities from which it earns revenue and incurs costs. The operating segments are used by the management of the Group to allocate resources and assess performance. Operating segments exhibiting similar economic characteristics, products and services, classes of customers where appropriate are aggregated and reported as reportable segments.

**2.4.18 Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. When the effect of the time value of money is material, the Group determines the level of provision by discounting the expected cash flows at a pre-tax rate reflecting the current rates specific to the liability. The expense relating to any provision is presented in the consolidated statement of profit or loss net of any reimbursement in provision for impairment and credit losses.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2024

**2.4 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)**

**2.4.19 Contingent assets and liabilities**

Contingent assets are not recognised in the consolidated financial statements, but are disclosed when an inflow of economic benefit is probable.

Contingent liabilities are not recognised in the consolidated financial statements, but are disclosed unless the possibility of an outflow of resources embodying economic benefit is remote.

**2.4.20 Fiduciary assets**

The Group provides fiduciary services that result in the holding or investing of assets on behalf of its clients. Assets held in a fiduciary capacity, unless recognition criteria are met, are not reported in the consolidated financial statements, as they are not assets of the Group (Note 25).

**2.4.21 Dividends on ordinary shares**

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Group's shareholders. Interim dividends are deducted from equity when they are declared and are no longer at the discretion of the Group.

Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

**2.4.22 Sukuk issued**

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

**2.4.23 Leases**

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 consideration.

*2.4.23.1 Group as a lessee*

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.

*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 remeasurement 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. Right-of-use assets are depreciated on a straight-line basis over the lease term.

The right-of-use assets are subject to impairment in line with the Group's policy as described in Note 2.4.11 - Impairment of non-financial assets.

*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 (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 the lease, if the lease term reflects exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

*2.4.23.2 Group as a lessor*

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the consolidated statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2024

**2.4 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)**

**2.4.24 Finance cost**

Finance cost is directly attributable to due to banks and financial institutions and depositors' accounts. All finance costs are expensed in the period they occur.

**2.5 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS**

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. In the process of applying the Group's accounting policies, management has made the following judgements and 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.

Existing circumstances and assumptions about future developments may change due to circumstances beyond the Group's control and are reflected in the assumptions if and when they occur. Items with the most significant effect on the amounts recognised in the consolidated financial statements with substantial management judgement and/or estimates are collated below with respect to judgements/estimates involved.

**2.5.1 Significant judgements**

***Consolidation of wholly owned special purpose vehicles***

A wholly owned special purpose vehicle is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. The Group consolidates the structured entities that it controls, as explained in Note 2.4.1. When making this judgement, the Group also considers voting and similar rights available to itself and other parties, who may limit the Group's ability to control, including rights to appoint, reassign or remove members of the structured entity's key management personnel who have the ability to direct the relevant activities.

***Fair value of financial instruments***

The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. When the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. Judgements and estimates include considerations of liquidity and model inputs related to items such as credit risk (both own and counterparty), funding value adjustments, correlation and volatility. For further details about determination of fair value please see Note 23.

***Hedge accounting***

The Group's hedge accounting policies include an element of judgement and estimation. Estimates of future profit rates and the general economic environment will influence the availability and timing of suitable hedged items, with an impact on the effectiveness of the hedge relationships.

***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.

***Classification of property***

Management decides on acquisition of a real estate property whether it should be classified as investment property or property and equipment. The Group classifies property as investment property if it is acquired to generate rental income or for capital appreciation or for an undetermined future use.

The Group classifies property as property and equipment when it is acquired for owner occupation.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2024

**2.5 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)**

**2.5.1 Significant judgements (continued)**

***Determining the lease term of contracts with renewal and termination options – Group as lessee***

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation to the leased asset).

**2.5.2 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 also described in the individual notes of the related financial statement line items below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

***Impairment of investment in joint ventures***

Investment in joint ventures are accounted for under the equity method of accounting for associates, whereby these investments are initially stated at cost, and are adjusted thereafter for the post-acquisition change in the Group's share of the net assets of the joint ventures less any impairment losses. The Group is required to assess, at each reporting date, whether there are indications of impairment. If such indications exist, the management estimates the recoverable amount of the joint venture in order to determine the extent of the impairment loss (if any). The identification of impairment indicators and determination of the recoverable amounts require management to make significant judgements, estimates and assumptions.

***Impairment of financial instruments and expected credit losses of financial instruments – as per IFRS 9 according to the CBK guidelines***

The measurement of impairment losses across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Group's ECL calculations are outputs of complex model with a number of underlying assumptions regarding the choice of variable inputs and their dependencies. Elements of the ECL model that are considered accounting judgements and estimates include:

- ▶ The Group's internal credit rating model, which assigns PDs to the individual grades;
- ▶ The Group's criteria for assessing if there has been a significant increase in credit risk so allowances for financial assets should be measured on a lifetime ECL basis and qualitative assessment;
- ▶ The segmentation of financial assets when their ECL is assessed on a collective basis;
- ▶ Development of ECL models, including various formulas and choice of inputs;
- ▶ Determination of associations between macroeconomic scenarios and, economic inputs, and the effect on PDs, EADs and LGDs; and
- ▶ Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

The Group has the policy to regularly review its model in the context of actual loss experience and adjust when necessary.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2024

**2.5 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)**

**2.5.2 Estimation uncertainty (continued)**

***Impairment losses on financing receivables – as per CBK guidelines***

The Group reviews its financing receivables on a regular basis to assess whether an impairment loss should be recorded in the consolidated statement of profit or loss. In particular, considerable judgment 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.

***Valuation of unquoted equity investments***

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

- ▶ recent arm's length market transactions;
- ▶ current fair value of another instrument that is substantially the same;
- ▶ earnings multiple;
- ▶ the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; or
- ▶ other valuation models.

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

***Valuation of investment properties***

The fair value of investment properties is determined by real estate valuation experts using recognised valuation techniques and the principles of IFRS 13 *Fair Value Measurement*.

Investment properties under construction are measured based on estimates prepared by independent real estate valuation experts, except where such values cannot be reliably determined. The significant methods and assumptions used by valuers in estimating the fair value of investment properties are set out in Note 8 and Note 23.

***Fair value measurement***

Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available). This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible but this is not always available. In that case, management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

***Leases - Estimating the incremental borrowing rate***

The Group cannot readily determine the profit rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease.

The Group estimates the IBR using observable inputs (such as market profit rates) when available and is required to make certain entity-specific estimates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**3 CASH AND CASH EQUIVALENTS**

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise the following at 31 December:

	<i>2024</i> <i>KD'000</i>	<i>2023</i> <i>KD'000</i>
Cash	5,953	9,382
Current account with the CBK	407,192	163,937
Current accounts with commercial banks	43,436	34,492
<b>Total cash and bank balances</b>	<b>456,581</b>	<b>207,811</b>
Placements with the CBK whose original maturity is within three months or less	107,192	124,232
Placements with banks whose original maturity is within three months or less	139,028	136,819
<b>Total cash and cash equivalents</b>	<b>702,801</b>	<b>468,862</b>

Placements with banks represent placements with reputable financial institutions with appropriate credit-ratings assigned by international credit-rating agencies.

**4 FINANCING RECEIVABLES**

Financing receivables mainly comprise of facilities extended to the customers of the Group in the form of Murabaha, Ijara and Wakala contracts. Wherever necessary, financing receivables are secured by acceptable forms of collateral to mitigate the related credit risk.

	<i>2024</i> <i>KD'000</i>	<i>2023</i> <i>KD'000</i>
Murabaha receivables	3,316,359	3,136,581
Ijara receivables	609,399	558,990
Wakala receivables	9,395	23,425
Others	21,497	33,614
Less: deferred profit	(219,899)	(204,857)
Financing receivables before provision for impairment	3,736,751	3,547,753
Less: Provision for impairment as per CBK guidelines	(94,148)	(94,801)
	<b>3,642,603</b>	<b>3,452,952</b>

Further analysis of financing receivables, net of deferred profit, based on customer type is given below:

	<i>2024</i> <i>KD'000</i>	<i>2023</i> <i>KD'000</i>
Corporate	2,333,110	2,185,508
Individuals	1,403,641	1,362,245
Financing receivables before provision for impairment	3,736,751	3,547,753
Less: Provision for impairment as per CBK guidelines	(94,148)	(94,801)
	<b>3,642,603</b>	<b>3,452,952</b>

During the year, the Group has recovered KD 2,281 thousand from written off deals in the prior years (2023: KD 2,981 thousand). The amount is recorded under other income in the consolidated statement of profit or loss.

The available provision balance on non-cash facilities of KD 6,771 thousand (2023: KD 5,414 thousand) is included under other liabilities in the consolidated statement of financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2024

**4 FINANCING RECEIVABLES (continued)**

Movement in provision for impairment as per CBK instructions for cash and non-cash facilities is as follows:

	<i>31 December 2024</i>		
	<i>Specific provision KD'000</i>	<i>General provision KD'000</i>	<i>Total KD'000</i>
<i>Cash facilities</i>			
As at 1 January 2024	10,040	84,761	94,801
Provision charged during the year	6,225	1,764	7,989
Written off balances during the year	(8,658)	-	(8,658)
Foreign currency movement	-	16	16
At 31 December 2024	<u>7,607</u>	<u>86,541</u>	<u>94,148</u>
<i>Non-cash facilities</i>			
As at 1 January 2024	3,753	1,661	5,414
Provision charged during the year	825	542	1,367
Foreign currency movement	-	(10)	(10)
At 31 December 2024	<u>4,578</u>	<u>2,193</u>	<u>6,771</u>
<i>Total facilities</i>			
As at 1 January 2024	13,793	86,422	100,215
Provision charged during the year (Note 16)	7,050	2,306	9,356
Written off balances during the year	(8,658)	-	(8,658)
Foreign currency movement	-	6	6
At 31 December 2024	<u>12,185</u>	<u>88,734</u>	<u>100,919</u>
	<i>31 December 2023</i>		
	<i>Specific provision KD'000</i>	<i>General provision KD'000</i>	<i>Total KD'000</i>
<i>Cash facilities</i>			
As at 1 January 2023	14,100	81,313	95,413
Provision (reversed) charged during the year	(2,156)	3,426	1,270
Written off balances during the year	(1,904)	-	(1,904)
Foreign currency movement	-	22	22
At 31 December 2023	<u>10,040</u>	<u>84,761</u>	<u>94,801</u>
<i>Non-cash facilities</i>			
As at 1 January 2023	4,470	1,107	5,577
Provision (reversed) charged during the year	(717)	554	(163)
At 31 December 2023	<u>3,753</u>	<u>1,661</u>	<u>5,414</u>
<i>Total facilities</i>			
As at 1 January 2023	18,570	82,420	100,990
Provision (reversed) charged during the year (Note 16)	(2,873)	3,980	1,107
Written off balances during the year	(1,904)	-	(1,904)
Foreign currency movement	-	22	22
At 31 December 2023	<u>13,793</u>	<u>86,422</u>	<u>100,215</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2024

**4 FINANCING RECEIVABLES (continued)**

An analysis of the carrying amounts of financing receivables (cash facilities), and the corresponding ECL based on the staging criteria under IFRS 9 in accordance with CBK regulations is as follows:

	<i>As at 31 December 2024</i>			
	<i>Stage 1</i> <i>KD'000</i>	<i>Stage 2</i> <i>KD'000</i>	<i>Stage 3</i> <i>KD'000</i>	<i>Total</i> <i>KD'000</i>
<i>Financing receivables</i>				
High	1,752,086	29,674	-	1,781,760
Standard	1,522,850	150,462	-	1,673,312
Past due or impaired	103,875	133,419	44,385	281,679
	<u>3,378,811</u>	<u>313,555</u>	<u>44,385</u>	<u>3,736,751</u>
	<i>As at 31 December 2023</i>			
	<i>Stage 1</i> <i>KD'000</i>	<i>Stage 2</i> <i>KD'000</i>	<i>Stage 3</i> <i>KD'000</i>	<i>Total</i> <i>KD'000</i>
<i>Financing receivables</i>				
High	1,597,217	65,792	-	1,663,009
Standard	1,487,564	167,147	14,965	1,669,676
Past due or impaired	122,834	69,301	22,933	215,068
	<u>3,207,615</u>	<u>302,240</u>	<u>37,898</u>	<u>3,547,753</u>

An analysis of the changes in the ECL in relation to financing receivables (cash facilities) computed under IFRS 9 in accordance to the CBK guidelines is as follows:

	<i>31 December 2024</i>			
	<i>Stage 1</i> <i>KD'000</i>	<i>Stage 2</i> <i>KD'000</i>	<i>Stage 3</i> <i>KD'000</i>	<i>Total</i> <i>KD'000</i>
ECL allowance as at 1 January 2024	14,257	9,950	16,048	40,255
Transfer from Stage 1	(396)	174	222	-
Transfer from Stage 2	1,066	(4,902)	3,836	-
Transfer from Stage 3	263	2,104	(2,367)	-
(Reversal) additional ECL for the year	(2,241)	2,155	22,800	22,714
Amounts written off	-	-	(8,658)	(8,658)
At 31 December 2024	<u>12,949</u>	<u>9,481</u>	<u>31,881</u>	<u>54,311</u>
	<i>31 December 2023</i>			
	<i>Stage 1</i> <i>KD'000</i>	<i>Stage 2</i> <i>KD'000</i>	<i>Stage 3</i> <i>KD'000</i>	<i>Total</i> <i>KD'000</i>
ECL allowance as at 1 January 2023	14,338	9,897	17,992	42,227
Transfer from Stage 1	(475)	421	54	-
Transfer from Stage 2	820	(1,086)	266	-
Transfer from Stage 3	269	508	(777)	-
(Reversal) additional ECL for the year	(695)	210	417	(68)
Amounts written off	-	-	(1,904)	(1,904)
At 31 December 2023	<u>14,257</u>	<u>9,950</u>	<u>16,048</u>	<u>40,255</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**4 FINANCING RECEIVABLES (continued)**

An analysis of the carrying amounts of contingent liabilities and commitments (non-cash facilities), and the corresponding ECL based on the staging criteria under IFRS 9 in accordance with CBK regulations is as follows:

	<i>As at 31 December 2024</i>			
	<i>Stage 1</i> <i>KD'000</i>	<i>Stage 2</i> <i>KD'000</i>	<i>Stage 3</i> <i>KD'000</i>	<i>Total</i> <i>KD'000</i>
<i>Non-cash facilities</i>				
High	200,912	1,188	-	202,100
Standard	181,949	64,697	-	246,646
Past due or impaired	-	-	15,926	15,926
	<u>382,861</u>	<u>65,885</u>	<u>15,926</u>	<u>464,672</u>
	<i>As at 31 December 2023</i>			
	<i>Stage 1</i> <i>KD'000</i>	<i>Stage 2</i> <i>KD'000</i>	<i>Stage 3</i> <i>KD'000</i>	<i>Total</i> <i>KD'000</i>
<i>Non-cash facilities</i>				
High	173,693	3,265	-	176,958
Standard	113,362	41,421	-	154,783
Past due or impaired	-	-	3,752	3,752
	<u>287,055</u>	<u>44,686</u>	<u>3,752</u>	<u>335,493</u>

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

	<i>31 December 2024</i>			
	<i>Stage 1</i> <i>KD'000</i>	<i>Stage 2</i> <i>KD'000</i>	<i>Stage 3</i> <i>KD'000</i>	<i>Total</i> <i>KD'000</i>
ECL allowance as at 1 January 2024	2,249	2,959	3,768	8,976
Transfer from Stage 1	(47)	47	-	-
Transfer from Stage 2	88	(1,366)	1,278	-
Transfer from Stage 3	2	-	(2)	-
(Reversal) additional ECL for the year	(68)	2,470	11,861	14,263
At 31 December 2024	<u>2,224</u>	<u>4,110</u>	<u>16,905</u>	<u>23,239</u>
	<i>31 December 2023</i>			
	<i>Stage 1</i> <i>KD 000</i>	<i>Stage 2</i> <i>KD 000</i>	<i>Stage 3</i> <i>KD 000</i>	<i>Total</i> <i>KD 000</i>
ECL allowance as at 1 January 2023	2,067	2,687	4,498	9,252
Transfer from Stage 1	(31)	31	-	-
Transfer from Stage 2	57	(57)	-	-
Additional (reversal) ECL for the year	156	298	(730)	(276)
At 31 December 2023	<u>2,249</u>	<u>2,959</u>	<u>3,768</u>	<u>8,976</u>

The expected credit losses calculated as per IFRS 9 according to the CBK guidelines amounted to KD 77,550 thousand as of 31 December 2024 (2023: KD 49,231 thousand), which is less than provisions computed as required by the CBK guidelines amounting to KD 100,919 thousand as of 31 December 2024 (2023: KD 100,215 thousand).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**5 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**

	<i>2024</i> <i>KD'000</i>	<i>2023</i> <i>KD'000</i>
Equity instruments - quoted	<b>3,657</b>	15,557
Funds - unquoted	<b>193,470</b>	141,925
Other securities - unquoted	<b>1,787</b>	4,771
	<b>198,914</b>	162,253

The hierarchy for determining and disclosing the fair values of financial instruments by valuation techniques are presented in Note 23.

**6 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME**

	<i>2024</i> <i>KD'000</i>	<i>2023</i> <i>KD'000</i>
Quoted Sukuk	<b>372,063</b>	360,303
Unquoted equity instruments	<b>9,497</b>	9,631
	<b>381,560</b>	369,934

During the year ended 31 December 2024, the management has performed a review of the financial assets at fair value through other comprehensive income (Sukuk) to assess the ECL. Based on the assessment, the management has reversed ECL of KD 93 thousand (2023: charge of KD 212 thousand) in the consolidated statement of profit or loss for the year (Note 16).

The hierarchy for determining and disclosing the fair values of financial instruments by valuation techniques are presented in Note 23.

Investments in debt instruments are subject to ECL. An analysis of changes in the gross carrying amount and the corresponding ECL in relation to investment in debt instruments is as follows:

	<i>31 December 2024</i>			
	<i>Stage 1</i> <i>KD'000</i>	<i>Stage 2</i> <i>KD'000</i>	<i>Stage 3</i> <i>KD'000</i>	<i>Total</i> <i>KD'000</i>
Gross carrying amount as at 1 January 2024	<b>328,618</b>	<b>31,685</b>	-	<b>360,303</b>
New assets purchased (payments and assets derecognised during the year), net	<b>11,577</b>	<b>(1,849)</b>	-	<b>9,728</b>
Fair value and exchange movements	<b>1,435</b>	<b>597</b>	-	<b>2,032</b>
<b>At 31 December 2024</b>	<b>341,630</b>	<b>30,433</b>	-	<b>372,063</b>
	<i>31 December 2024</i>			
	<i>Stage 1</i> <i>KD'000</i>	<i>Stage 2</i> <i>KD'000</i>	<i>Stage 3</i> <i>KD'000</i>	<i>Total</i> <i>KD'000</i>
ECL allowance as at 1 January 2024	<b>613</b>	<b>572</b>	-	<b>1,185</b>
Impact due to purchase/de-recognition	<b>81</b>	<b>27</b>	-	<b>108</b>
Re-measurement of ECL	<b>105</b>	<b>(306)</b>	-	<b>(201)</b>
<b>At 31 December 2024</b>	<b>799</b>	<b>293</b>	-	<b>1,092</b>

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**6 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME**  
(continued)

	<i>31 December 2023</i>			
	<i>Stage 1</i> <i>KD'000</i>	<i>Stage 2</i> <i>KD'000</i>	<i>Stage 3</i> <i>KD'000</i>	<i>Total</i> <i>KD'000</i>
Gross carrying amount as at 1 January 2023	258,394	26,522	-	284,916
New assets purchased (payments and assets derecognised during the year), net	62,030	3,695	-	65,725
Fair value and exchange movements	8,194	1,468	-	9,662
At 31 December 2023	<u>328,618</u>	<u>31,685</u>	<u>-</u>	<u>360,303</u>

  

	<i>31 December 2023</i>			
	<i>Stage 1</i> <i>KD'000</i>	<i>Stage 2</i> <i>KD'000</i>	<i>Stage 3</i> <i>KD'000</i>	<i>Total</i> <i>KD'000</i>
ECL allowance as at 1 January 2023	368	605	-	973
Impact due to purchase/de-recognition	307	181	-	488
Re-measurement of ECL	(62)	(214)	-	(276)
At 31 December 2023	<u>613</u>	<u>572</u>	<u>-</u>	<u>1,185</u>

**7 INVESTMENT IN JOINT VENTURES**

The Group's interest in joint ventures is accounted for using the equity method in the consolidated financial statements. Summarised financial information of the joint ventures, based on its IFRS Accounting Standards financial statements, and reconciliation with the carrying amount of the investment in the consolidated financial statements are set out below:

	<i>2024</i> <i>KD'000</i>	<i>2023</i> <i>KD'000</i>
As at 1 January	119,271	107,880
Net additions	10,334	14,768
Redemption	(692)	-
Share of results (Note 14)	(7,972)	(200)
Distributions received	(1,159)	(4,463)
Foreign currency translation adjustment	(553)	1,415
Share of other comprehensive loss of investment in joint venture	(438)	(129)
As at 31 December	<u>118,791</u>	<u>119,271</u>

The major joint ventures of the Group are as follows:

<i>Name of joint venture</i>	<i>Principal activities</i>	<i>Country of incorporation</i>	<i>Equity interest %</i>	
			<i>2024</i>	<i>2023</i>
Ridge at Robinson	Real Estate Investment	USA	99	99
Bella Vida	Real Estate Investment	USA	98	98
Broadstone Durham	Real Estate Investment	USA	98	98
Cortland Greengate Property	Real Estate Investment	UK	55	55
Jefferson Palm Beach Fund	Real Estate Investment	USA	98	98
Attiva Malone	Real Estate Investment	USA	98	98
Tapestry Westland Property	Real Estate Investment	USA	57	98
Project Canyon	Real Estate Investment	USA	86	-
GCM Infinium	Real Estate Investment	UK	99	99

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**7 INVESTMENT IN JOINT VENTURES (continued)**

The following table illustrates summarised financial information of the Group's investment in the joint ventures:

	<i>2024</i> <i>KD'000</i>	<i>2023</i> <i>KD'000</i>
<i>Summarised statement of financial position of the joint ventures:</i>		
Current assets	<b>15,280</b>	10,020
Non-current assets	<b>131,234</b>	141,978
Current liabilities	<b>(1,378)</b>	(6,972)
<b>Equity</b>	<b>145,136</b>	145,026
<b>Group's share in equity</b>	<b>118,791</b>	119,271
<b>Group's carrying amount of the investment</b>	<b>118,791</b>	119,271
<i>Summarised consolidated statement of profit or loss of the joint ventures:</i>		
Revenue	<b>(9,543)</b>	(10)
Administrative and other expenses	<b>(222)</b>	(191)
Loss for the year	<b>(9,765)</b>	(201)
Group's share of loss for the year	<b>(7,972)</b>	(200)
Share of other comprehensive loss	<b>(438)</b>	(129)

The joint ventures had no capital commitments as at 31 December 2024 (2023: KD Nil) and no contingent liabilities as at 31 December 2024 and 2023.

**8 INVESTMENT PROPERTIES**

	<i>2024</i> <i>KD'000</i>	<i>2023</i> <i>KD'000</i>
Opening balance at 1 January	<b>1,675</b>	16,193
Additions during the year	<b>35,931</b>	-
Sale during the year	-	(14,600)
Fair value adjustment to investment properties (Note 14)	<b>1,938</b>	82
Closing balance at 31 December	<b>39,544</b>	1,675

During the year, the Bank has recognized a property for an amount of KD 35,931 thousand being the approximate fair value at the date of recognition through a wholly owned special purpose vehicle located in the UAE in a settlement of financing receivable balance due from one of the Bank's customers.

The fair value of investment properties is determined based on valuations performed by independent and accredited valuers with recognised and relevant professional qualification and with recent experience in locations and categories of investment properties being valued. The valuation models applied are consistent with the principles in IFRS 13 and fair value is determined using the market comparison approach considering the nature and usage of each property. Under the market comparison approach, fair value is estimated based on comparable transactions. The unit of comparison applied by the Group is the price per square meter ('sqm'). Based on these valuations, the fair value of investment properties witnessed an increase of KD 1,938 thousand compared to its carrying values as at 31 December 2024 (2023: increase of KD 82 thousand).

Significant increases (decreases) in estimated price per square metre in isolation would result in a significantly higher (lower) fair value on a linear basis.

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**8 INVESTMENT PROPERTIES (continued)**

Significant increases (decreases) in estimated rental value and rent growth per annum in isolation would result in a significantly higher (lower) fair value of the properties. Significant increases (decreases) in the long-term vacancy rate and discount rate (and exit yield) in isolation would result in a significantly lower (higher) fair value.

Generally, a change in the assumption made for the estimated rental value is accompanied by a directionally similar change in the rent growth per annum and discount rate (and exit yield), and an opposite change in the long term vacancy rate.

	<i>2024</i> <i>KD'000</i>	<i>2023</i> <i>KD'000</i>
Rental income derived from investment properties	447	94
Direct operating expenses	(47)	(67)
Net rental income arising from investment properties (Note 14)	<u>400</u>	<u>27</u>

The Group has no restrictions on the realisability of its investment properties and no contractual obligations to either purchase, construct or develop investment properties or for repairs, maintenance and enhancements.

The fair value hierarchy of investment properties are disclosed in Note 23.

**9 DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS**

Due to banks and other financial institutions represents deposits received from banks and other financial institutions under Wakala and Murabaha contracts.

**10 DEPOSITORS' ACCOUNTS**

Depositors' accounts of the Group comprise of the following:

▶ *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 Group guarantees to pay the related balances on demand. Accordingly, these deposits are considered Qard Hasan from depositors to the Group.

▶ *Investment deposits*

These include Murabaha and Wakala deposits, which have fixed maturity as specified in the term of the contract except for investment saving accounts and Mudaraba which are valid for an unlimited period.

**11 SUKUK ISSUED**

On 17 June 2020, the Bank completed the issuance of an unsecured Sukuk (senior debt) amounting to KD 150 million with a tenor of up to 5 years maturing on 17 June 2025. Such Sukuk has a coupon rate of 1% per annum over the CBK discount rate, payable semi-annually in arrears. The Sukuk is listed on the Irish Stock Exchange (Euronext Dublin).

On 10 July 2024, the Bank completed the issuance of an unsecured Sukuk (senior debt) amounting to US\$ 500 million (KD 154 million) with a tenor of up to 5 years maturing on 10 July 2029. Such Sukuk has a fixed coupon rate of 5.351% per annum, payable semi-annually in arrears. The Sukuk is listed on the London Stock Exchange International Securities Market and NASDAQ Dubai.

The unsecured Sukuk (senior debt) amounting to US\$ 500 million (KD 152 million) that was issued on 24 September 2019 has matured on 24 September 2024.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**12 EQUITY**

*Share capital*

The authorised, issued, and fully paid-up share capital as at 31 December 2024 comprise of 2,183,600 thousand shares (2023: 2,060,000 thousand shares) of a par value of 100 fils each.

*Statutory reserve*

In accordance with the Companies' Law, and the Bank's Memorandum of Incorporation and Articles of Association, as amended, a minimum of 10% of the profit for the year before contribution to KFAS, NLST, Zakat and Directors' remunerations shall be transferred to the statutory reserve. The Annual General Assembly of the Bank may resolve to discontinue such transfer when the reserve exceeds 50% of the issued share capital. The reserve may only be used to offset losses or enable the payment of a dividend up to 5% of paid-up share capital in years when profit is not sufficient for the payment of such dividend due to absence of distributable reserves. Any amounts deducted from the reserve shall be refunded when the profits in the following years suffice, unless such reserve exceeds 50% of the issued share capital. An amount of KD 2,354 thousand was transferred to the statutory reserve during the year ended 31 December 2024 (2023: KD 2,068 thousand).

*Voluntary reserve*

In accordance with the Bank's Articles of Association and Memorandum of Incorporation, as amended, a percentage is deducted for voluntary reserve based on proposal of the Board of Directors and subject to approval of the Annual General Assembly. Such transfers may be discontinued by a resolution of the ordinary general assembly upon a proposal by the Board of Directors and the CBK approval.

No transfers have been proposed by the Board of Directors to the voluntary reserve in the current and prior year.

*Dividends made and proposed*

- ▶ The ordinary annual general assembly meeting ("AGM") of the Bank's shareholders held on 31 March 2024 approved dividends of 6% bonus shares amounting to KD 12,360 thousand to the Bank's shareholders for the year ended 31 December 2023 (2023: 3% bonus shares and a cash dividend of 3 fils per share aggregating to KD 6,000 thousand and KD 6,000 thousand respectively for the year ended 31 December 2022).
- ▶ The shareholders of the Bank at the extra-ordinary general assembly ("EGM") held on 8 April 2024 approved the increase of Bank's authorised, issued, and fully paid share capital by issuing 123,600 thousand bonus shares at 6% of the authorised and paid-up share capital (i.e. 6 shares for each 100 shares) amounting to KD 12,360 thousand to the shareholders registered in the Bank's records as at the end of the record date on 9 May 2024. The legal proceedings relating to the issuance of bonus shares have been completed during the year. The increase in share capital was reflected in the commercial registration on 22 April 2024.
- ▶ The Board of Directors recommended distribution of 6% bonus shares (2023: 6% bonus shares) on outstanding shares as at 31 December 2024. The bonus shares are subject to the Shareholders' Annual General Meeting approval and completing the necessary regulatory requirements.

**13 PERPETUAL TIER 1 SUKUK**

Tier 1 Sukuk 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 net proceeds of Tier 1 Sukuk 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. At the Bank's sole discretion, it may elect not to make any Mudaraba distributions expected and, in such event, the Mudaraba profit will not be accumulated and the event is not considered an event of default.

On 29 November 2021, the Bank, through a Shari'a compliant Sukuk arrangement, issued Tier 1 Sukuk amounting to USD 250 million (KD 75.8 million). The Tier 1 Sukuk is listed on the Irish Stock Exchange and NASDAQ Dubai and callable by the Bank after five-year period ending 26 November 2026 (the "First Call Date") or any profit payment date thereafter subject to certain redemption conditions. Such Sukuk bears a profit rate of 4% per annum to be paid semi-annually in arrears until the First Call Date. After that, the expected profit rate will be reset based on the prevailing 5 years U.S Mid Swap Rate plus initial margin of 2.748% per annum. The Bank made profit payments during the year on 28 May 2024 and 26 November 2024.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2024

**14 NET INVESTMENT INCOME**

	<i>2024</i> <i>KD'000</i>	<i>2023</i> <i>KD'000</i>
Realised gain on sale of debt instruments at fair value through other comprehensive income	1,599	336
Share of results of investment in joint ventures (Note 7)	(7,972)	(200)
Dividend income	5,871	4,241
Net rental income from investment properties (Note 8)	400	27
Gain on sale of investment property	-	1,900
Fair value adjustment to financial assets at fair value through profit or loss	8,845	1,158
Fair value adjustment to investment properties (Note 8)	1,938	82
Loss on sale of joint ventures	(410)	(28)
Other investment income	336	3,329
	<u>10,607</u>	<u>10,845</u>

**15 NET FEES AND COMMISSION INCOME**

Net fees and commission income includes financing syndication fees earned on the successful completion of syndicated deals by the Group amounting to KD 1,897 thousand (2023: KD 2,005 thousand).

**16 PROVISION FOR IMPAIRMENT AND CREDIT LOSSES**

	<i>2024</i> <i>KD'000</i>	<i>2023</i> <i>KD'000</i>
(Reversal of) provision for expected credit losses for investments in Sukuk (Note 6)	(93)	212
(Reversal of) provision for expected credit losses for placements with banks	(49)	55
Provision for impairment as per CBK guidelines on credit facilities (Note 4)	9,356	1,107
Impairment on other assets	1,194	1,134
	<u>10,408</u>	<u>2,508</u>

**17 BASIC AND DILUTED EARNINGS PER SHARE (EPS)**

Basic EPS amounts are calculated by dividing the profit for the year attributable to ordinary equity holders of the Bank adjusted for profit paid on Perpetual Tier 1 Sukuk by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is calculated by dividing the profit attributable to ordinary equity holders of the Bank by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares. As there are no dilutive instruments outstanding, basic and diluted earnings per share are identical.

	<i>2024</i>	<i>2023</i> <i>(Restated)*</i>
Net profit for the year (KD'000)	22,402	19,667
Less: profit payment on Perpetual Tier 1 Sukuk (KD'000)	(3,075)	(3,081)
	<u>19,327</u>	<u>16,586</u>
Weighted average number of shares outstanding ('000)	<u>2,183,600</u>	<u>2,183,600</u>
Basic and diluted EPS (fils)	<u>8.85</u>	<u>7.60</u>

\* The comparative basic and diluted EPS has been restated to reflect the impact of bonus shares issued in 2024.

There have been no other transactions involving ordinary shares between the reporting date and the date of authorisation of these consolidated financial statements which would require the restatement of EPS.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2024

**18 RELATED PARTY DISCLOSURES**

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. Balances with related parties arise from commercial transactions in the normal course of business. Lending to Board Members and their related parties is secured by tangible collateral in accordance with regulation of Central Bank of Kuwait.

**18.1 Remuneration of the Bank's key management personnel:**

Key management personnel are those individuals who have the authority and responsibility for planning and exercising power to directly or indirectly control the activities of the Bank and its employees. The Bank considers the members of the Board of Directors (and its sub-committees) and Executive Committee to be key management personnel for the purposes of IAS 24 *Related Party Disclosures*.

	<b>2024</b>	<b>2023</b>
	<b>KD'000</b>	<b>KD'000</b>
Salaries and benefits	<b>3,452</b>	3,541
End of service benefits	<b>185</b>	187
Directors' remuneration*	<b>544</b>	544
	<b>4,181</b>	4,272

\* Directors' remuneration includes special compensation for additional contributions related to participation in the executive committees in accordance with board of directors' decisions.

Board of directors' remuneration for the year ended 31 December 2024 is subject to the approval of the annual general assembly meeting (AGM).

The AGM of the shareholders of the Bank held on 31 March 2024 approved directors' remuneration for the year ended 31 December 2023 amounting to KD 66 thousand (2022: KD 66 thousand).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2024

**18 RELATED PARTY DISCLOSURES (continued)**

**18.2 Balances and transactions with Bank's board of directors' members, key management personnel and major shareholders:**

Details of the balances of board of directors' members, executive officers and major shareholders are as follows:

	<i>Number of BOD members, executive officers, major shareholders or joint ventures</i>		<i>Number of related parties</i>		<i>Outstanding balance</i>	
	<i>2024</i>	<i>2023</i>	<i>2024</i>	<i>2023</i>	<i>2024</i>	<i>2023</i>
					<i>KD'000</i>	<i>KD'000</i>
<b>Board Members</b>						
Financing facilities (secured)	-	1	-	-	-	2
Credit cards	1	1	1	-	4	-
Depositors' accounts	8	7	32	27	9,457	6,417
Contingent liabilities (letter of guarantees)	-	-	4	4	1,283	734
<b>Executive Officers</b>						
Financing facilities (secured)	9	7	-	1	1,159	1,307
Credit cards	3	3	-	-	5	5
Depositors' accounts	16	14	16	17	2,047	4,795
<b>Major Shareholders</b>						
Financing facilities (secured)	-	-	3	2	5,497	2,527
Depositors' accounts	3	3	4	4	630,045	677,367
Contingent liabilities (letter of guarantees)	-	-	1	1	169	197
<b>Joint Ventures</b>						
Depositors' accounts	39	39	-	-	227	382

Outstanding balances at year-end are in the ordinary course of business. The profit rates charged to, and by, related parties are at normal commercial rates.

Details of the transactions of board of directors' members, executive officers and major shareholders are as follows:

	<i>2024</i>	<i>2023</i>
	<i>KD'000</i>	<i>KD'000</i>
<b>Board Members</b>		
Net fees and commission income	14	9
Finance costs and distribution to depositors	222	198
<b>Executive Officers</b>		
Placement and finance income	190	175
Finance costs and distribution to depositors	122	190
<b>Major Shareholders</b>		
Placement and finance income	205	126
Net fees and commission income	9	4
Finance costs and distribution to depositors	28,423	32,587

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2024

**19 COMMITMENTS AND CONTINGENT LIABILITIES**

	<i>2024</i> <i>KD'000</i>	<i>2023</i> <i>KD'000</i>
Acceptances and letters of credit	<b>102,519</b>	71,624
Letter of guarantees	<b>362,153</b>	263,873
<b>Contingent liabilities</b>	<b>464,672</b>	335,497
<b>Capital and other commitments</b>	<b>246,731</b>	200,394

As at 31 December 2024, capital and other commitments includes irrevocable commitments to extend credit amounted to KD 147,868 thousand (2023: KD 125,854 thousand). These include commitments to extend credit which are irrevocable over the life of the facility or are revocable only in response to a material adverse change.

These credit commitments do not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded. Credit losses, if any, which may result from exposure to such commitments are not expected to be significant.

**20 RISK MANAGEMENT**

Risk is inherent in all activities of the Group and is managed through a process of ongoing identification, measurement, mitigation and monitoring, subject to risk appetite limits and other controls. This process of risk management is critical to the Group's financial health and continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Group has exposure to the following risks from financial instruments:

- ▶ Credit risk;
- ▶ Market risk;
- ▶ Liquidity risk; and
- ▶ Operational risk.

In addition, there are other risk types that need to be monitored and controlled. This note presents information about the Group's exposure to each of the risks, the Group's framework of policies, models and quantification techniques and processes for identifying, measuring, mitigating, monitoring and managing risk, and the management of Group's capital.

This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to country risk and various operating and business risks.

**20.1 Risk management structure**

***Board of Directors***

The Board of Directors (the 'Board') has overall responsibility for the establishment and oversight of Risk Management function. The Board has established a Board Risk Committee (the 'BRC') comprising of members from the Board, to set the framework and monitor the Bank's Risks and Control related requirements covering all risk types like credit, market, liquidity risks and operational risk. The Board Risk Committee is assisted in these functions by the Chief Risk Officer.

The Board has also established a Board Audit Committee (the 'BAC'), as required by the Central Bank of Kuwait, which, amongst other functions, is also required to monitor adherence with the Group's Risk Management principles, policies and procedures, and for reviewing the adequacy of the Risk Management framework. The Board Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Group Audit Committee.

***Risk Management Group***

An independent Risk Management Group headed by the Chief Risk Officer (the 'CRO') reports to the BRC, responsible for enterprise-wide risks, to assist the Board of Directors and BRC in carrying out the risk oversight responsibility.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2024

**20 RISK MANAGEMENT (continued)**

**20.1 Risk management structure (continued)**

*Risk Management Group (continued)*

Risk management policies are established to identify, quantify, control, mitigate, and analyse the risks faced by the Group to set appropriate risk limits and controls and to monitor risks and ensure adherence to the risk appetite limits. Risk management policies and systems are subject to review regularly, on an ongoing basis, to reflect changes in economic environment, market conditions, products and services offered by the Group.

**20.2 Credit risk**

Credit risk is the risk that one party to a financial instrument will fail or delay to discharge an obligation and cause the other party to incur a financial loss. This includes the risk of decline in the credit standing of the customer. While such decline does not imply default, it increases the probability of the customer defaulting. Financial instruments that create credit risk mainly includes financing receivables and commitments to extend credit and investment in debt instruments (i.e. Sukuk).

For risk management control purposes, the Group considers and consolidates all elements of credit risk exposure such as individual obligor default risk, country risk and sector risk in one measure about the riskiness of an exposure.

*Credit risk management*

The Group's Board has approved Financing and Investment policies for various business groups and investment asset types. The Board has also approved the Executive Credit and Investment Committee (the 'ECIC') Charter, which is empowered for initial screening of proposals and approval within its delegated authorities. The Board has also constituted the Board Credit and Investment Committee (the 'BCIC') which by virtue of its Charter, is the next level of authority which provides guiding principles and approves the various financing and investment proposals on behalf of the Board of the Group.

The Risk Management Group provides independent opinion and assessment of risk for every financing and investment proposal presented to the approving authorities for decision making.

The Group manages its credit facilities portfolio with the objective of ensuring that it is well diversified and it earns a level of return commensurate with the risks it assumes, at the same time, seeks to ensure the quality of the credit portfolio.

In addition, the Group endeavors to manage the credit exposure by obtaining collateral where appropriate and limiting the tenor of exposure or structures that are beneficial to the overall risk profile of the Group's credit risk exposure.

As required by the CBK, the Group has established a Provisioning Committee, at the executive level which is primarily responsible for the study and evaluation of the existing credit facilities and investments of the Group, to identify any abnormal situations and difficulties associated with a customer's position which may require the exposure to be classified as irregular, and to determine an appropriate provisioning required for impaired/ potential impairment of assets and investments.

**Assessment of expected credit losses**

*Definition of default and cure*

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 transferring collateral (if any is held); or
- ▶ 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 management purposes.

The Group considers exposures as defaulted when the external rating is recognized as a default grade as per the relative rating scale of the recognized rating agencies.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2024

**20 RISK MANAGEMENT (continued)**

**20.2 Credit risk (continued)**

**Assessment of expected credit losses (continued)**

*Definition of default and cure (continued)*

The Group considers a variety of indicators that may indicate unlikelihood to pay as part of a qualitative assessment of whether a customer is in default. Such indicators include:

- ▶ breaches of covenants;
- ▶ borrower having past due liabilities to public creditors or employees; and
- ▶ borrower is deceased.

*Significant increase in credit risk*

The Group continuously monitors all assets subject to ECL. In order to determine whether an instrument or a portfolio of instruments is subject to 12 months ECL or lifetime ECL, the Group assess whether there has been a significant increase in credit risk since initial recognition. The Group applies a consistent quantitative criterion for internally and externally rated portfolio to assess significant increase in credit risk.

*Internal rating and Probability of Default (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 Moody's CreditLens (MC) as its internal credit-rating engine. The MC tool provides the ability to analyse a business and produce risk ratings. 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.

It is the Group's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Group's rating policy. The attributable risk ratings are assessed and updated regularly.

The standard 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 MC 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.

*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 Group employs statistical models to incorporate macro-economic factors on historical default rates. The Group considers 3 scenarios (baseline, upside and downside) of forecasts of macro-economic data and appropriate probability weights are applied to these scenarios to derive a probability weighted outcome of expected credit loss. The management reviews the methodologies and assumptions including any forecasts of future economic conditions on a regular basis.

**Sensitivity**

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, to KD 22,589 thousand (2023: KD 24,488 thousand) from KD 20,336 thousand (2023: KD 22,098 thousand). 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 financing receivables would be KD 36,094 thousand (2023: KD 39,825 thousand) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2024

**20 RISK MANAGEMENT (continued)**

**20.2 Credit risk (continued)**

**Assessment of expected credit losses (continued)**

*Sensitivity (continued)*

Under current probability-weighted scenarios, if all performing financing receivables were in Stage 1, reflecting a 12-month expected loss period, the allowance for credit losses would be KD 15,977 thousand (2023: KD 18,005 thousand) lower than the reported allowance for credit losses on financing receivables.

**Maximum exposure to credit risk without taking account of any collateral**

The following table summarises the maximum exposure to credit risk for the components of the consolidated statement of financial position, including off-consolidated statement of financial position items. The maximum exposure is shown net of impairment, before the effect of mitigation through the use of master netting and collateral agreements, where applicable.

	<i>Net maximum exposure</i>	
	<i>2024</i>	<i>2023</i>
	<i>KD'000</i>	<i>KD'000</i>
Balances with banks	<b>450,628</b>	198,429
Placements with banks and the CBK	<b>385,084</b>	425,786
Financing receivables	<b>3,642,603</b>	3,452,952
Financial assets at fair value through other comprehensive income (investment in Sukuk)	<b>372,063</b>	360,303
Other assets	<b>19,662</b>	9,467
	<b>4,870,040</b>	4,446,937
Acceptances and letters of credit	<b>102,026</b>	71,267
Letter of guarantees	<b>355,875</b>	258,816
<b>Total</b>	<b>457,901</b>	330,083
<b>Total credit risk exposure</b>	<b>5,327,941</b>	4,777,020

Where financial instruments are recorded at fair value, the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could give rise in the future as a result of changes in value.

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region or exposed to similar economic environment that would cause their ability to meet contractual obligations and be similarly impacted by changes in economic, political and/or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Group's performance to developments affecting similarly connected counterparties.

The maximum credit exposure granted to a single counterparty as at 31 December 2024 amounted to KD 64,544 thousand (2023: KD 86,737 thousand) before taking account of collateral as per the credit concentration instructions from the CBK.

**Risk concentrations of the maximum exposure to credit risk**

Geographical and industry sector concentrations of financial assets and off-consolidated statement of financial position items are as follows:

	<i>2024</i>		<i>2023</i>	
	<i>Financial assets</i>	<i>Off-balance sheet items</i>	<i>Financial assets</i>	<i>Off-balance sheet items</i>
	<i>KD'000</i>	<i>KD'000</i>	<i>KD'000</i>	<i>KD'000</i>
<i>Geographic region:</i>				
Kuwait	<b>3,886,657</b>	<b>399,831</b>	3,437,539	299,972
Other Middle East	<b>727,862</b>	<b>7,666</b>	788,605	2,176
Rest of the World	<b>255,521</b>	<b>50,404</b>	220,793	27,935
	<b>4,870,040</b>	<b>457,901</b>	4,446,937	330,083

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As at and for the year ended 31 December 2024

**20 RISK MANAGEMENT (continued)**

**20.2 Credit risk (continued)**

*Risk concentrations of the maximum exposure to credit risk (continued)*

	2024		2023	
	<i>Financial assets KD'000</i>	<i>Off-balance sheet items KD'000</i>	<i>Financial assets KD'000</i>	<i>Off-balance sheet items KD'000</i>
<i>Industry sector:</i>				
Banks and other financial institutions	1,425,771	42,145	1,192,040	31,263
Construction and Real Estate	1,388,824	202,799	1,368,993	154,029
Trading and Manufacturing	497,819	120,727	521,868	80,120
Personal	663,396	-	629,096	-
Services	320,187	69,564	193,876	54,435
Other	574,043	22,666	541,064	10,236
	<b>4,870,040</b>	<b>457,901</b>	<b>4,446,937</b>	<b>330,083</b>

**Credit risk mitigation**

Credit risk mitigation techniques that the Group is permitted to use are obtaining collateral where appropriate and limiting the tenor of exposure or structures that are beneficial to the Group's management of risks to an exposure.

**Credit quality of financial instruments**

For the year ended 31 December 2024 and 2023, the Group classified the various credit risk exposure which are neither past due nor impaired into two categories of credit quality as under:

**High quality:** Credit exposures where the ultimate risk of financial loss from the obligor's failure to discharge its obligation is assessed to be low-to-moderate. These include exposures to entities with financial strength and risk factors indicative of capacity to repay all contractual obligations, and those exposures that are significantly collateralized with tangible securities.

**Standard quality:** All other exposures whose payment performance is fully compliant with contractual conditions and which are not impaired.

The tables below show the credit quality of assets by class and grade before deducting the provision for impairment as per the Group's credit rating system.

	<i>Neither past due nor impaired</i>		<i>Past due or impaired</i>	<i>Total KD'000</i>
	<i>High quality KD'000</i>	<i>Standard quality KD'000</i>	<i>KD'000</i>	
<b>2024</b>				
Balances with banks	450,628	-	-	450,628
Placements with banks and the CBK	385,157	-	-	385,157
Financing receivables	1,781,760	1,673,312	281,679	3,736,751
Financial assets at fair value through other comprehensive income (investment in Sukuk)	270,428	101,635	-	372,063
Other assets	4,333	18,113	-	22,446
	<b>2,892,306</b>	<b>1,793,060</b>	<b>281,679</b>	<b>4,967,045</b>

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As at and for the year ended 31 December 2024

**20 RISK MANAGEMENT (continued)**

**20.2 Credit risk (continued)**

*Credit quality of financial instruments (continued)*

	<i>Neither past due nor impaired</i>		<i>Past due or impaired</i>	<i>Total KD'000</i>
	<i>High quality KD'000</i>	<i>Standard quality KD'000</i>	<i>KD'000</i>	
2023				
Balances with banks	198,429	-	-	198,429
Placements with banks and the CBK	419,155	6,753	-	425,908
Financing receivables	1,663,009	1,669,676	215,068	3,547,753
Financial assets at fair value through other comprehensive income (investment in Sukuk)	276,447	83,856	-	360,303
Other assets	3,823	6,784	-	10,607
	<u>2,560,863</u>	<u>1,767,069</u>	<u>215,068</u>	<u>4,543,000</u>

Disclosure of credit quality and the maximum exposure for credit risk of financing receivables per categories based on the Bank's internal credit rating system and year-end stage classification are further disclosed in Note 4.

**Ageing analysis of past due but not impaired finance facilities by class of financial assets:**

	<i>Less than 30 days KD'000</i>	<i>31 to 60 days KD'000</i>	<i>61 to 90 days KD'000</i>	<i>Total KD'000</i>
2024				
Financing receivables	<u>208,799</u>	<u>12,151</u>	<u>7,137</u>	<u>228,087</u>
2023				
Financing receivables	<u>126,069</u>	<u>17,232</u>	<u>42,288</u>	<u>185,589</u>

**Collaterals**

The amount and type of collaterals required depends on an assessment of the credit risk of the counterparty. Guidelines initiated by the Bank's risk management and credit committee are implemented regarding the acceptability of types of collateral and valuation parameters.

Management monitors the fair value of collateral and requests additional collateral in accordance with the underlying agreements when necessary.

The fair value of collateral that the Bank holds relating to past due or impaired finance facilities as at 31 December 2024 was KD 348,382 thousand (2023: KD 246,090 thousand). The collaterals consist of cash, securities, sukuk, letters of guarantee, real estate assets and other forms of collateral.

**20.3 Market risk**

Market risk emanates from the process of fair value or future cash flows of a financial instrument which fluctuates due to changes in market prices. Market risk may arise from open positions in profit rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market or prices such as profit rates, credit spreads, foreign exchange rates and equity prices.

**Market risk management**

The Risk Management Group is responsible for development of detailed Market Risk Management framework and for the periodic review of their implementation, while it is the responsibility of the Treasury function to proactively manage and control market risk generated from various market positions in investments, financial instruments and over-the-counter deals.

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As at and for the year ended 31 December 2024

**20 RISK MANAGEMENT (continued)**

**20.3 Market risk (continued)**

*Market risk management (continued)*

The market risk framework comprises of the following elements:

- ▶ Limits for all market risk parameters and regular limits monitoring to ensure that Group does not exceed aggregate risk and concentration parameters set by the CBK limits and internal limits;
- ▶ Mark-to-market valuation based on independently published market data, and continuous review of all open positions; and
- ▶ Measuring Value-at-Risk for market sensitive positions and monitoring the same against established limits.

The Group is required to comply with the guidelines and regulations of the CBK. The Market Risk policies and procedures and the market risk limits are periodically set and reviewed to ensure the implementation of the Group's market risk appetite.

*20.3.1. Profit rate risk*

Profit rate risk arises from the changes in profit rates affecting future cash flows or the fair value of the underlying financial exposure or instrument. The Group is susceptible to profit rate risk as value of Group's fixed income investments and/ or return on financing are inversely proportional to movement in market rates. Moreover, change in profit rates might also impact Group's net earnings or earnings spread. The Group is not exposed to significant profit rate risk.

*20.3.2. Prepayment risk*

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier than expected, such as fixed rate financial exposures when profit rates fall. Due to the contractual terms of its Islamic products, the Group is not significantly exposed to prepayment risk.

*20.3.3. Currency risk*

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is susceptible to currency risk as the Group's base currency is KD and all foreign currencies are revalued against KD. Any long or short open position in any currency exposes the Group to currency risk.

Currency risk is managed on the basis of limits determined by the CBK and a continuous assessment of the Group's open positions and current and expected exchange rate movements.

The tables below indicate the currencies to which the Group had significant exposure at 31 December on its non-trading monetary assets and liabilities and its forecasted cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the KD, with all other variables held constant, on profit or loss and equity (due to changes in fair value and foreign currency translation recognised in OCI).

Currency	2024			2023		
	Change in currency rate %	Effect on profit or loss KD'000	Effect on equity KD'000	Change in currency rate %	Effect on profit or loss KD'000	Effect on equity KD'000
USD	+1	(1,621)	837	+1	(2,736)	818
EUR	+1	(72)	60	+1	(221)	63
GBP	+1	(338)	292	+1	(238)	307

*20.3.4. Equity price risk*

Equity price risk is the risk that the fair values of equities decrease as the result of change in the levels of equity prices and/or indices and the value of individual stocks.

The Group conducts sensitivity analysis on regular intervals in order to assess the potential impact of any material change in fair value of listed equity instruments. For such investments, a five percent increase in stock prices as at 31 December 2024 would have increased equity by KD 174 thousand (2023: KD 741 thousand). 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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**20 RISK MANAGEMENT (continued)**

**20.4 Liquidity risk**

Liquidity risk arises when the Group may be unable to meet its obligations associated with its financial liabilities. Liquidity risk can be caused by market disruptions, credit downgrades or market perception, which may cause certain sources of funding to dry up immediately. To limit this risk, the Group has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of High Quality Liquid Assets (HQLA) which could be used to secure additional funding and liquidity if and when required. The Group has in place a Contingency Funding Plan (CFP) to ensure required action is implemented in the event of any liquidity contingencies. ALCO is responsible for invoking the CFP.

***Liquidity risk management***

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Risk Management Group and Treasury monitor the Group's liquidity profile daily and take appropriate steps, if required. The Group's liquidity profile is monitored on daily basis; overall assets and liabilities as well as for KD and foreign currencies (FCY), on the Group's position in terms of Statutory Liquidity Ratio (SLR) as well as Lending to Deposit Ratio (LDR) and Liquidity Coverage Rate (LCR). Treasury co-ordinates with all business groups, details of projected cash flows required or arising from potential ensuing business opportunities.

Treasury is required to maintain a portfolio of short-term liquid assets, largely made up of short-term high-quality liquid investment securities and availability of inter-bank lines at short notice, to ensure that sufficient liquidity is maintained with the Group. Treasury's liquidity management is performed with most optimisation, taking into account the maturity gaps. The daily liquidity position is monitored and regular stress testing is conducted under a variety of scenarios covering the mild and more severe market conditions. All liquidity policies are subject to review by the ALCO and approved by the BRC. Periodic liquidity profile report, including any exceptions and remedial action required/taken, is reviewed by the ALCO. The Group is governed by the liquidity limits and maturity ladder profile as mandated by the CBK regulations and the CBK approved limits.

The table below summarizes the maturity profile of the Group's assets and liabilities. The maturity profile of the assets and liabilities at the year-end are based on contractual repayment arrangement with the exception of some investments which are bucketed as per the CBK criteria.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2024

20 RISK MANAGEMENT (continued)

20.4 Liquidity risk (continued)

*Liquidity risk management (continued)*

The maturity profile of assets and liabilities as at 31 December is as follows:

2024	<i>Within 3 months KD'000</i>	<i>3 to 6 months KD'000</i>	<i>6 to 12 months KD'000</i>	<i>Over 1 year KD'000</i>	<i>Total KD'000</i>
<b>Assets</b>					
Cash and balances with banks	456,581	-	-	-	456,581
Placements with banks and the CBK	305,524	79,560	-	-	385,084
Financing receivables	1,741,871	534,256	398,939	967,537	3,642,603
Financial assets at fair value through profit or loss	-	-	-	198,914	198,914
Financial assets at fair value through other comprehensive income	37,446	6,542	30,520	307,052	381,560
Investments in joint ventures	-	-	-	118,791	118,791
Investment properties	-	-	-	39,544	39,544
Other assets	15,853	5,600	148	30,614	52,215
Property and equipment	-	-	-	18,480	18,480
	<u>2,557,275</u>	<u>625,958</u>	<u>429,607</u>	<u>1,680,932</u>	<u>5,293,772</u>
<b>Liabilities</b>					
Due to banks and other financial institutions	915,212	111,778	121,579	184,072	1,332,641
Depositors' accounts	1,835,690	820,970	415,121	77,286	3,149,067
Sukuk issued	-	154,254	-	154,050	308,304
Other liabilities	78,491	-	-	13,519	92,010
	<u>2,829,393</u>	<u>1,087,002</u>	<u>536,700</u>	<u>428,927</u>	<u>4,882,022</u>
2023	<i>Within 3 months KD'000</i>	<i>3 to 6 months KD'000</i>	<i>6 to 12 months KD'000</i>	<i>Over 1 year KD'000</i>	<i>Total KD'000</i>
<b>Assets</b>					
Cash and balances with banks	207,811	-	-	-	207,811
Placements with banks and the CBK	425,786	-	-	-	425,786
Financing receivables	1,676,075	619,060	266,331	891,486	3,452,952
Financial assets at fair value through profit or loss	-	-	-	162,253	162,253
Financial assets at fair value through other comprehensive income	27,496	18,594	54,242	269,602	369,934
Investments in joint ventures	-	-	-	119,271	119,271
Investment properties	-	-	-	1,675	1,675
Other assets	28,468	11,089	191	36,766	76,514
Property and equipment	-	-	-	16,013	16,013
	<u>2,365,636</u>	<u>648,743</u>	<u>320,764</u>	<u>1,497,066</u>	<u>4,832,209</u>
<b>Liabilities</b>					
Due to banks and other financial institutions	817,259	98,342	88,277	158,971	1,162,849
Depositors' accounts	2,011,838	581,264	248,821	65,222	2,907,145
Sukuk issued	-	-	154,331	150,000	304,331
Other liabilities	55,708	-	-	10,980	66,688
	<u>2,884,805</u>	<u>679,606</u>	<u>491,429</u>	<u>385,173</u>	<u>4,441,013</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2024

**20 RISK MANAGEMENT (continued)**

**20.4 Liquidity risk (continued)**

*Liquidity risk management (continued)*

The liquidity profile of financial liabilities of the Group summarised below reflects the cash flows including future interest payments over the life of these financial liabilities based on contractual repayment arrangements. Repayments which are subject to notice are treated as if notice were to be given immediately.

	<i>Within 3 months KD'000</i>	<i>3 to 6 months KD'000</i>	<i>6 to 12 months KD'000</i>	<i>Over 1 year KD'000</i>	<i>Total KD'000</i>
<b>2024</b>					
Due to banks and other financial institutions	927,921	113,814	125,319	186,664	1,353,718
Depositors' accounts	1,981,432	832,874	434,545	78,433	3,327,284
Sukuk issued	4,122	158,191	-	161,925	324,238
	<u>2,913,475</u>	<u>1,104,879</u>	<u>559,864</u>	<u>427,022</u>	<u>5,005,240</u>
	<i>Within 3 months KD'000</i>	<i>3 to 6 months KD'000</i>	<i>6 to 12 months KD'000</i>	<i>Over 1 year KD'000</i>	<i>Total KD'000</i>
<b>2023</b>					
Due to banks and other financial institutions	826,908	100,308	91,538	160,132	1,178,886
Depositors' accounts	2,141,077	610,433	262,490	65,732	3,079,732
Sukuk issued	4,026	2,237	160,594	154,473	321,330
	<u>2,972,011</u>	<u>712,978</u>	<u>514,622</u>	<u>380,337</u>	<u>4,579,948</u>

The table below shows the contractual expiry by maturity of the Group's contingent liabilities and commitments. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called. The Group expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

	<i>Within 3 months KD'000</i>	<i>3 to 12 months KD'000</i>	<i>Over 1 year KD'000</i>	<i>Total KD'000</i>
<b>2024</b>				
Acceptances and letters of credit	48,879	49,028	4,612	102,519
Letter of guarantees	362,153	-	-	362,153
Capital and other commitments	147,868	98,863	-	246,731
	<u>558,900</u>	<u>147,891</u>	<u>4,612</u>	<u>711,403</u>
	<i>Within 3 months KD'000</i>	<i>3 to 12 months KD'000</i>	<i>Over 1 year KD'000</i>	<i>Total KD'000</i>
<b>2023</b>				
Acceptances and letters of credit	38,336	28,062	5,226	71,624
Letter of guarantees	263,873	-	-	263,873
Capital and other commitments	125,854	74,540	-	200,394
	<u>428,063</u>	<u>102,602</u>	<u>5,226</u>	<u>535,891</u>

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As at and for the year ended 31 December 2024

**20 RISK MANAGEMENT (continued)**

**20.5 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 have legal or regulatory implications, or lead to a financial or reputational loss.

**Management of operational risk**

The Group has a set of policies approved by the Board and are applied to identify, assess and supervise operational risk in addition to other types of risk relating to the banking and financial activities of the Group. Suitable operational risk procedures have been agreed with various groups and departments of the Group and implemented for effectively reporting, monitoring and controlling operational risks.

Operational risk is managed under the Risk Management Group. This group ensures compliance with policies and procedures to identify, assess, supervise and monitor operational risk as part of overall prudent and robust Risk Management Framework.

The Group manages operational risks in line with the CBK instructions regarding “General Guidelines for Internal Control Systems” and directives regarding “Sound Practices for the Management and Control of Operational Risks”.

The Group has established its Business Continuity Management (“BCM”) policy to meet any internal or external failures and eventualities enabling smooth functioning of the Group’s operations.

The Group has established a Disaster Recovery (“DR”) site for its IT infrastructure, and ensures that the operational risks from any potential disruption do not adversely impact the banking business. The Group pays special attention to operational risks that may arise from non-compliance to Sharī‘a principles and any possible failure in fiduciary responsibilities.

**21 SEGMENT INFORMATION**

The Group’s operating segments are determined based on the reports reviewed by the decision makers that are used for strategic decisions. These segments are strategic business units that offer different products and services. They are managed separately since the nature of the products and services, class of customers and marketing strategies of these segments are different.

These operating segments meet the criteria for reportable segments and are as follows:

- ▶ **Corporate** - comprising of range of banking services and investment products to corporate customers, in addition to providing commodity and real estate Murabaha finance and Ijara facilities.
- ▶ **Retail** - comprising of a diversified range of products and services to individual customers. The range includes consumer finance, credit cards, deposits and other branch related services.
- ▶ **Treasury** – comprising of Bank’s funding operations management, local and international Murabaha and other Islamic financing primarily with banks and financial institutions.
- ▶ **Investment** - comprising of investment in direct equity, real estate investment, other investments, asset management and structured financing.
- ▶ **Other** – comprising of cost center assets and expenses.

Management monitors the operating segments separately for the purpose of making decisions about resource allocation and performance assessment.

The following table presents net operating income, net profit for the year, total assets, and total liabilities information regarding the Group’s reportable segments.

	<i>Corporate KD’000</i>	<i>Retail KD’000</i>	<i>Treasury KD’000</i>	<i>Investment KD’000</i>	<i>Other KD’000</i>	<i>Total KD’000</i>
<b>2024</b>						
Net operating income (loss)	<b>64,965</b>	<b>10,499</b>	<b>5,538</b>	<b>(696)</b>	<b>-</b>	<b>80,306</b>
Net profit (loss)	<b>54,944</b>	<b>(4,234)</b>	<b>4,803</b>	<b>(3,776)</b>	<b>(29,335)</b>	<b>22,402</b>
Total assets	<b>2,486,184</b>	<b>716,738</b>	<b>874,019</b>	<b>1,154,074</b>	<b>62,757</b>	<b>5,293,772</b>
Total liabilities	<b>1,194,671</b>	<b>1,258,186</b>	<b>2,343,867</b>	<b>-</b>	<b>85,298</b>	<b>4,882,022</b>

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**21 SEGMENT INFORMATION (continued)**

	<i>Corporate KD'000</i>	<i>Retail KD'000</i>	<i>Treasury KD'000</i>	<i>Investment KD'000</i>	<i>Other KD'000</i>	<i>Total KD'000</i>
2023						
Net operating income (loss)	55,355	5,438	3,378	(49)	-	64,122
Net profit (loss)	47,668	(6,478)	2,633	2,272	(26,428)	19,667
Total assets	2,328,863	649,184	672,862	1,107,077	74,223	4,832,209
Total liabilities	1,000,468	1,155,040	2,224,172	-	61,333	4,441,013

**22 CAPITAL MANAGEMENT**

The primary objectives of the Group's capital management are to ensure that the Group complies with regulatory capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholder value with appropriate risk level.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may review the amount of dividend payment to shareholders or issue capital securities.

Capital adequacy and the use of regulatory capital are monitored regularly by the Group's management and governed by guidelines of Basel Committee on Banking Supervision as adopted by the CBK.

The Group follows Basel III regulations and the Group's regulatory capital and capital adequacy ratios for the year ended 31 December 2024 are calculated in accordance with the CBK Circular number 2/RB, RBA/336/2014 dated 24 June 2014 and its amendments are shown below:

	<i>2024 KD'000</i>	<i>2023 KD'000</i>
<b>Risk weighted assets</b>	<b>2,623,355</b>	2,483,686
<b>Capital required</b>	<b>341,036</b>	322,879
<b>Capital available</b>		
Common equity Tier 1 "CET1" capital	335,942	318,068
Additional Tier 1 perpetual Sukuk	74,239	74,246
Total Tier 1 capital	410,181	392,314
Total Tier 2 capital	31,090	29,351
<b>Total capital available</b>	<b>441,271</b>	421,665
CETI capital adequacy ratio: common equity	12.81%	12.81%
Total Tier 1 capital adequacy ratio	15.64%	15.80%
Total capital adequacy ratio	16.82%	16.98%

The Group's financial leverage ratio for the year ended 31 December 2024 is calculated in accordance with the CBK Circular number 2/I.B.S. 343/2014 dated 21 October 2014 and its amendments and is shown below:

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As at and for the year ended 31 December 2024

22 CAPITAL MANAGEMENT (continued)

	2024 <i>KD'000</i>	2023 <i>KD'000</i>
Tier 1 capital	<u>410,181</u>	<u>392,314</u>
Total exposure	<u>5,737,661</u>	<u>5,193,373</u>
Financial leverage ratio	<u>7.15%</u>	<u>7.55%</u>

The disclosure relating to the capital adequacy regulations issued by the CBK as stipulated in the CBK Circular number 2/RB, RBA/336/2014 dated 24 June 2014 and its amendments and disclosures related to financial leverage ratio as stipulated in the CBK Circular number 2/I.B.S. 343/2014 dated 21 October 2014 and its amendments are included under the 'Risk Management' section in the annual report.

23 FAIR VALUE MEASUREMENT

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.

**Fair value hierarchy**

The Group uses the following hierarchy for determining and disclosing the fair values of financial and non-financial assets by valuation technique:

- ▶ **Level 1:** quoted (unadjusted) prices in an active market for identical assets and liabilities;
- ▶ **Level 2:** other techniques for which all inputs which have a material effect on the recorded fair value are observable, either directly or indirectly; and
- ▶ **Level 3:** other techniques which use inputs which have a material effect on the recorded fair value are not based on observable market data.

The following table shows an analysis of assets recorded at fair value by level of the fair value hierarchy:

	<i>Fair value measurement</i>			
	<i>Total</i>	<i>Quoted prices in active markets (Level 1)</i>	<i>Significant observable inputs (Level 2)</i>	<i>Significant unobservable inputs (Level 3)</i>
<b>2024</b>	<i>KD'000</i>	<i>KD'000</i>	<i>KD'000</i>	<i>KD'000</i>
<i>Assets measured at fair value on a recurring basis</i>				
<i>Financial assets at FVTPL</i>				
Quoted equity instruments	3,657	3,657	-	-
Funds (unquoted)	193,470	-	-	193,470
Other securities (unquoted)	1,787	-	-	1,787
	<u>198,914</u>	<u>3,657</u>	<u>-</u>	<u>195,257</u>
<i>Financial assets at FVOCI</i>				
Quoted Sukuk				
- Sovereign Sukuk	173,854	173,854	-	-
- Corporate Sukuk	198,209	198,209	-	-
	<u>372,063</u>	<u>372,063</u>	<u>-</u>	<u>-</u>
Unquoted equity instruments	9,497	-	-	9,497
	<u>381,560</u>	<u>372,063</u>	<u>-</u>	<u>9,497</u>
<i>Non-financial assets:</i>				
Investment properties	39,544	-	1,563	37,981
	<u>39,544</u>	<u>-</u>	<u>1,563</u>	<u>37,981</u>

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23 FAIR VALUE MEASUREMENT (continued)

Fair value hierarchy (continued)

2023	Total KD'000	Fair value measurement		
		Quoted prices in active markets (Level 1) KD'000	Significant observable inputs (Level 2) KD'000	Significant unobservable inputs (Level 3) KD'000
<i>Assets measured at fair value on a recurring basis</i>				
<i>Financial assets at FVTPL</i>				
Quoted equity instruments	15,557	15,557	-	-
Funds (unquoted)	141,925	-	-	141,925
Other securities (unquoted)	4,771	-	-	4,771
	<u>162,253</u>	<u>15,557</u>	<u>-</u>	<u>146,696</u>
<i>Financial assets at FVOCI</i>				
<i>Quoted Sukuk</i>				
- Sovereign Sukuk	183,034	183,034	-	-
- Corporate Sukuk	177,269	177,269	-	-
	<u>360,303</u>	<u>360,303</u>	<u>-</u>	<u>-</u>
Unquoted equity instruments	9,631	-	-	9,631
	<u>369,934</u>	<u>360,303</u>	<u>-</u>	<u>9,631</u>
<i>Non-financial assets:</i>				
Investment properties	1,675	-	1,675	-
	<u>1,675</u>	<u>-</u>	<u>1,675</u>	<u>-</u>

Movements in Level 3 assets measured at fair value

The following table shows a reconciliation of the opening and closing amounts of Level 3 assets measured at fair value.

	At 1 January 2024 KD'000	Additions KD'000	Sales/ redemptions KD'000	Change in fair value KD'000	Exchange rate movements KD'000	At 31 December 2024 KD'000
<i>Financial assets at FVTPL</i>						
Funds (unquoted)	141,925	47,489	(5,200)	9,663	(407)	193,470
Other securities (unquoted)	4,771	-	(967)	(2,030)	13	1,787
	<u>146,696</u>	<u>47,489</u>	<u>(6,167)</u>	<u>7,633</u>	<u>(394)</u>	<u>195,257</u>
<i>Financial assets at FVOCI</i>						
Unquoted equity instruments	9,631	-	-	(134)	-	9,497
	<u>9,631</u>	<u>-</u>	<u>-</u>	<u>(134)</u>	<u>-</u>	<u>9,497</u>
<i>Non-financial assets</i>						
Investment properties	-	35,931	-	2,050	-	37,981
	<u>-</u>	<u>35,931</u>	<u>-</u>	<u>2,050</u>	<u>-</u>	<u>37,981</u>

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**23 FAIR VALUE MEASUREMENT (continued)**

**Movements in Level 3 assets measured at fair value (continued)**

	<i>At</i> <i>1 January</i> <i>2023</i>	<i>Additions</i>	<i>Sales/ redemptions</i>	<i>Change in fair value</i>	<i>Exchange rate movements</i>	<i>At</i> <i>31 December</i> <i>2023</i>
	<i>KD'000</i>	<i>KD'000</i>	<i>KD'000</i>	<i>KD'000</i>	<i>KD'000</i>	<i>KD'000</i>
<i>Financial assets at FVTPL</i>						
Funds (unquoted)	121,368	27,199	(6,120)	(1,265)	743	141,925
Other securities (unquoted)	5,750	-	(633)	(356)	10	4,771
	<u>127,118</u>	<u>27,199</u>	<u>(6,753)</u>	<u>(1,621)</u>	<u>753</u>	<u>146,696</u>
<i>Financial assets at FVOCI</i>						
Unquoted equity instruments	10,497	884	-	(1,750)	-	9,631
	<u>10,497</u>	<u>884</u>	<u>-</u>	<u>(1,750)</u>	<u>-</u>	<u>9,631</u>

There were no transfers between any levels of the fair value hierarchy during 2024 or 2023.

The fair value of financial assets classified as level 3 are, in certain circumstances, measured using valuation techniques that incorporate assumptions that are not evidenced by the prices from observable current market transactions in the same instrument and are not based on observable market data. The Group employs valuation techniques, depending on the instrument type and available market data. For example, in the absence of active market, an investment's fair value is estimated on the basis of an analysis of the investee's financial position and results, risk profile and other factors. Favorable and unfavorable changes in the value of financial assets are determined on the basis of changes in the value of the instruments as a result of varying the levels of the unobservable parameters, quantification of which is judgmental. The management assessed that the impact on profit or loss or other comprehensive income would be immaterial if the relevant risk variables used to fair value the financial assets classified as Level 3 were altered by 5 percent.

The assumptions used in the fair value measurements of investment properties categorised within Level 2 and Level 3 of the fair value hierarchy are disclosed in Note 8.

For other financial assets and financial liabilities carried at amortised cost, the carrying value is not significantly different from their fair value as most of these assets and liabilities are of short-term maturity or are re-priced immediately based on market movement in profit rates.

**24 DERIVATIVE FINANCIAL INSTRUMENTS**

Derivative financial instruments are financial instruments that derive their value by referring to profit rates, foreign exchange rates, index of prices or rates and credit rating or credit index. Notional principal amounts merely represent amounts to which a rate or price is applied to determine the amounts of cash flows to be exchanged and do not represent the potential gain or loss associated with the market or credit risk of such instruments.

Derivative financial instruments are carried at fair value in the consolidated statement of financial position. Positive fair value represents the cost of replacing all transactions with a fair value in the Group's favour had the rights and obligations arising from that instrument been closed in an orderly market transaction at the reporting date. Credit risk in respect of derivative financial instruments is limited to the positive fair value of the instruments. Negative fair value represents the cost to the Group's counter parties of replacing all their transactions with the Group.

The Group deals in forward foreign exchange ("Islamic derivative financial instruments") to mitigate foreign currency risk. The forward foreign exchange contracts are being used for hedging purpose.

*Forward foreign exchange contracts*

Forward foreign exchange contracts are contractual agreements to buy, sell or exchange a specified financial instrument at a specific price and date in the future. Forwards are customized contracts transacted on the over the counter market and are settled on a gross basis.

