

AL AHLI BANK OF KUWAIT K.S.C.P. AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2025

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF AL AHLI BANK OF KUWAIT K.S.C.P.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Al Ahli Bank of Kuwait K.S.C.P. (the "Bank") and its subsidiaries (collectively the "Group"), which comprise the consolidated statement of financial position as at 31 December 2025, and the consolidated income statement, 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 2025, 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 (CBK) for use by the State of Kuwait.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), as applicable to audits of the consolidated financial statements of public interest entities, 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 credit facilities

The recognition of credit losses on loans, advances and non-cash credit facilities (together "credit facilities") to customers is the higher of Expected Credit Loss ("ECL") determined under International Financial Reporting Standard 9: Financial Instruments ("IFRS 9"), according to Central Bank of Kuwait (the "CBK") guidelines, and the provision required by the CBK instructions as disclosed in the accounting policies and in Note 2.9 to the consolidated financial statements.

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

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

Key Audit Matters (continued)

Credit losses on credit facilities (continued)

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

The recognition of a specific provision on an impaired credit facility under the CBK instructions is based on the rules prescribed by the CBK on the minimum provision to be recognized, together with any additional provision to be recognised based on management's estimate of expected cash flows related to that credit facility.

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

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

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

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

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

Key Audit Matters (continued)

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

Other information included in the Group's 2025 Annual Report

Management is responsible for the other information. Other information consists of the information included in the Group's 2025 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 2025 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 or conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in 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 auditor's report, we conclude that there is a material misstatement of 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 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.

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism 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.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF AL AHLI BANK OF KUWAIT 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)

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

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

- Plan and perform the Group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the Group as a basis for forming an opinion on the Group consolidated financial statements. We are responsible for the direction, supervision and review of the audit work performed for the 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 AL AHLI BANK OF KUWAIT K.S.C.P. (continued)

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion, proper books of account have been kept by the Bank and the consolidated financial statements, together with the contents of the report of the Bank's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the Central Bank of Kuwait ("CBK") as stipulated in CBK Circular Nos. 2/RB, RBA/336/2014 dated 24 June 2014 and its amendments, and 2/ B.S. 342/2014 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/B.S. 342/2014 dated 21 October 2014 and its amendments respectively, the Companies Law No 1 of 2016, as amended, and its executive regulations, as amended, nor of the Bank's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2025 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 2025 that might have had a material effect on the business of the Bank or on its financial position.

SHEIKHA AL FULAIJ
LICENCE NO. 289 A
EY
AL-AIBAN, AL-OSAIMI & PARTNERS

ALI B. AL-WAZZAN
LICENCE NO. 246A
DELOITTE & TOUCHE - AL WAZZAN & CO.

4 February 2026
Kuwait

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2025

	Notes	2025 KD 000	2024 KD 000
ASSETS			
Cash and balances with banks	9	**790,404**	1,043,183
Kuwait Government treasury bonds	10	**159,000**	5,000
Central Bank of Kuwait bonds	10	**16,772**	81,453
Loans and advances	5,11	**4,565,690**	4,829,046
Investment securities	12	**1,100,150**	1,119,235
Investment in an associate	13	**35,482**	33,434
Premises and equipment		**111,987**	107,519
Intangible assets	14	**5,442**	5,371
Other assets	15	**140,180**	149,272
TOTAL ASSETS		**6,925,107**	7,373,513
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks and other financial institutions	16	**1,107,861**	1,514,246
Customers' deposits	17	**4,071,697**	4,408,318
Certificates of deposit	18	**151,387**	-
Other borrowed funds	19	**632,772**	538,463
Other liabilities	20	**186,807**	191,565
TOTAL LIABILITIES		**6,150,524**	6,652,592
EQUITY			
Share capital	21	**261,776**	249,311
Share premium	21	**158,897**	158,897
Treasury shares	21	**(5,135)**	(5,135)
Reserves	21	**265,624**	224,968
EQUITY ATTRIBUTABLE TO SHAREHOLDERS' OF THE BANK		**681,162**	628,041
Perpetual Tier 1 Capital Securities	21	**91,560**	91,560
Non-controlling interests		**1,861**	1,320
TOTAL EQUITY		**774,583**	720,921
TOTAL LIABILITIES AND EQUITY		**6,925,107**	7,373,513

Talal Mohamed Reza Behbehani
Chairman

Giel-Jan Van Der Tol
Group Chief Executive Officer

The attached notes 1 to 29 form part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2025

	Notes	***2025*** ***KD 000***	*2024* *KD 000*
Interest income	22	**493,267**	477,776
Interest expense	23	**(333,765)**	(333,596)
NET INTEREST INCOME		**159,502**	144,180
Net fees and commission income	24	**37,982**	37,104
Net foreign exchange gain		**6,871**	8,106
Net gain on investment securities		**4,406**	1,857
Dividend income		**3,213**	1,791
Share of results from an associate	13	**3,648**	3,646
Other operating income		**5,847**	4,066
OPERATING INCOME		**221,469**	200,750
Staff expenses		**(54,936)**	(50,781)
Other operating expenses		**(36,029)**	(37,035)
Depreciation and amortisation		**(5,974)**	(5,521)
OPERATING EXPENSES		**(96,939)**	(93,337)
OPERATING PROFIT FOR THE YEAR		**124,530**	107,413
Provision / impairment losses	25	**(46,297)**	(42,661)
PROFIT FOR THE YEAR BEFORE TAXATION AND DIRECTORS' FEE		**78,233**	64,752
Taxation	26	**(14,273)**	(11,205)
Directors' fee	8	**(990)**	(810)
NET PROFIT FOR THE YEAR		**62,970**	52,737
Attributable to:			
Shareholders' of the Bank		**62,591**	52,414
Non-controlling interests		**379**	323
		62,970	52,737
BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO THE SHAREHOLDERS' OF THE BANK	27	**22 fils**	20 fils

The attached notes 1 to 29 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2025

	2025 ***KD 000***	*2024* *KD 000*
Net profit for the year	**62,970**	52,737
Items that will not be reclassified subsequently to consolidated income statement:		
Equity instruments at fair value through other comprehensive income:		
- Effect of net changes in fair value	**9,722**	(24)
Re-measurement of defined benefit obligation	**(167)**	394
Revaluation of freehold land	**391**	1,124
	9,946	1,494
Items that are or may be reclassified subsequently to consolidated income statement:		
Debt instruments at fair value through other comprehensive income:		
- Effect of net changes in fair value	**12,025**	667
- Expected credit losses (release) charge	**(137)**	(271)
- Recycling of net gain on sale	**(3,273)**	(884)
	8,615	(488)
Foreign currency translation:		
- Net exchange difference on translation of foreign operations	**2,882**	(23,466)
Total other comprehensive income (loss) for the year	**21,443**	(22,460)
Total comprehensive income for the year	**84,413**	30,277
Attributable to:		
Shareholders' of the Bank	**83,872**	30,244
Non-controlling interests	**541**	33
	84,413	30,277

The attached notes 1 to 29 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2025

	Attributable to shareholders' of the Bank													
				Reserves										
	Share capital KD 000	*Share premium KD 000*	*Treasury shares KD 000*	*Statutory reserve KD 000*	*Voluntary reserve KD 000*	*Treasury shares reserve KD 000*	*Other reserves (Note 21) KD 000*	*Cumulative changes in fair value KD 000*	*Retained earnings KD 000*	*Total reserves KD 000*	*Total KD 000*	*Perpetual Tier 1 Capital Securities KD 000*	*Non-controlling interests KD 000*	*Total equity KD 000*
At 1 January 2025	**249,311**	**158,897**	**(5,135)**	**97,338**	**82,075**	**8,065**	**(55,505)**	**11,927**	**81,068**	**224,968**	**628,041**	**91,560**	**1,320**	**720,921**
Net profit for the year	-	-	-	-	-	-	-	-	**62,591**	**62,591**	**62,591**	-	**379**	**62,970**
Other comprehensive income for the year	-	-	-	-	-	-	**3,065**	**18,216**	-	**21,281**	**21,281**	-	**162**	**21,443**
Total comprehensive income for the year	-	-	-	-	-	-	**3,065**	**18,216**	**62,591**	**83,872**	**83,872**	-	**541**	**84,413**
Bonus shares issued (Note 21)	**12,465**	-	-	-	-	-	-	-	**(12,465)**	**(12,465)**	-	-	-	-
Dividends paid (Note 21)	-	-	-	-	-	-	-	-	**(24,770)**	**(24,770)**	**(24,770)**	-	-	**(24,770)**
Transfer due to derecognition of equity investments at FVOCI	-	-	-	-	-	-	-	**(23)**	**23**	-	-	-	-	-
Interest payment on Perpetual Tier 1 Capital Securities	-	-	-	-	-	-	-	-	**(5,981)**	**(5,981)**	**(5,981)**	-	-	**(5,981)**
Transfer to reserve	-	-	-	**6,412**	-	-	-	-	**(6,412)**	-	-	-	-	-
At 31 December 2025	**261,776**	**158,897**	**(5,135)**	**103,750**	**82,075**	**8,065**	**(52,440)**	**30,120**	**94,054**	**265,624**	**681,162**	**91,560**	**1,861**	**774,583**

The attached notes 1 to 29 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

For the year ended 31 December 2025

	Attributable to shareholders' of the Bank													
				Reserves										
	Share capital KD 000	*Share premium KD 000*	*Treasury shares KD 000*	*Statutory reserve KD 000*	*Voluntary reserve KD 000*	*Treasury shares reserve KD 000*	*Other reserves (Note 21) KD 000*	*Cumulative changes in fair value KD 000*	*Retained earnings KD 000*	*Total reserves KD 000*	*Total KD 000*	*Perpetual Tier 1 Capital Securities KD 000*	*Non-controlling interests KD 000*	*Total equity KD 000*
At 1 January 2024	237,439	158,897	(5,135)	91,926	82,075	8,065	(33,866)	12,481	67,670	228,351	619,552	-	1,300	620,852
Net profit for the year	-	-	-	-	-	-	-	-	52,414	52,414	52,414	-	323	52,737
Other comprehensive loss for the year	-	-	-	-	-	-	(21,639)	(531)	-	(22,170)	(22,170)	-	(290)	(22,460)
Total comprehensive (loss) income for the year	-	-	-	-	-	-	(21,639)	(531)	52,414	30,244	30,244	-	33	30,277
Bonus shares issued (Note 21)	11,872	-	-	-	-	-	-	-	(11,872)	(11,872)	-	-	-	-
Dividends paid (Note 21)	-	-	-	-	-	-	-	-	(21,231)	(21,231)	(21,231)	-	-	(21,231)
Transfer due to derecognition of equity investments at FVOCI	-	-	-	-	-	-	-	(23)	23	-	-	-	-	-
Adjustment arising from change in Non-controlling interest	-	-	-	-	-	-	-	-	54	54	54	-	(13)	41
Proceeds from issuance of Perpetual Tier 1 Capital Securities (Note 21)	-	-	-	-	-	-	-	-	-	-	-	91,560	-	91,560
Perpetual Tier 1 Capital Securities issuance cost (Note 21)	-	-	-	-	-	-	-	-	(578)	(578)	(578)	-	-	(578)
Transfer to reserve	-	-	-	5,412	-	-	-	-	(5,412)	-	-	-	-	-
At 31 December 2024	249,311	158,897	(5,135)	97,338	82,075	8,065	(55,505)	11,927	81,068	224,968	628,041	91,560	1,320	720,921

The attached notes 1 to 29 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASHFLOWS

For the year ended 31 December 2025

	Notes	2025 KD 000	2024 KD 000
OPERATING ACTIVITIES			
Profit for the year before directors' fees and taxation		**78,233**	64,752
Adjustments for:			
Net gain on sale of investment securities		**(3,077)**	(836)
Dividend income		**(3,213)**	(1,791)
Share of results from an associate		**(3,648)**	(3,646)
Depreciation and amortisation		**5,974**	5,521
Provision / impairment losses	25	**46,297**	42,661
Operating profit before changes in operating assets and liabilities		**120,566**	106,661
Changes in operating assets and liabilities:			
Deposits with banks		**41,552**	(51,995)
Kuwait Government treasury bonds		**(154,000)**	12,500
Central Bank of Kuwait bonds		**64,681**	82,259
Loans and advances		**227,066**	(814,773)
Investments at fair value through profit or loss		**(7,744)**	(6,533)
Other assets		**21,998**	(37,326)
Due to banks and other financial institutions		**(407,769)**	412,825
Customers' deposits		**(371,672)**	907,572
Certificates of deposit		**151,387**	-
Other liabilities		**(20,756)**	7,600
Taxes paid		**(7,823)**	(9,970)
Net cash flows (used in) from operating activities		**(342,514)**	608,820
INVESTING ACTIVITIES			
Purchase of investment securities		**(605,261)**	(1,259,827)
Proceeds from sale/redemption of investment securities		**665,804**	966,191
Dividend received from investment in an associate		**1,601**	1,440
Net purchase of premises and equipment		**(8,750)**	(8,468)
Dividend income received		**3,213**	1,791
Net cash flows from (used in) investing activities		**56,607**	(298,873)
FINANCING ACTIVITIES			
Proceeds from issuance of Tier 1 Capital Securities	21	**-**	91,560
Interest paid on Tier 1 Capital Securities		**(5,981)**	-
Dividend paid		**(24,770)**	(21,231)
Transaction cost on issue of Perpetual Tier 1 Capital Securities		**-**	(578)
Syndicated borrowings	19	**68,798**	-
Proceeds from issuance of subordinated bonds	19	**29,830**	-
Net cash flows from financing activities		**67,877**	69,751
Foreign currency translation adjustments		**(431)**	(74,564)
Net (decrease) increase in cash and cash equivalents		**(218,461)**	305,134
Cash and cash equivalents at 1 January		**888,055**	582,921
Cash and cash equivalents at 31 December		**669,594**	888,055
Cash and cash equivalent comprise:			
Cash in hand and in current account with other banks		**57,345**	62,417
Balances and deposits with Central Banks (original maturity not exceeding thirty days)		**366,721**	569,087
Deposits with other banks (original maturity not exceeding thirty days)		**245,528**	256,551
		669,594	888,055

Interest received amounted to KD 493,492 thousand (2024: KD 464,833 thousand) and interest paid amounted to KD 344,568 thousand (2024: KD 316,070 thousand).

The attached notes 1 to 29 form part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2025

1 INCORPORATION AND REGISTRATION

Al Ahli Bank of Kuwait K.S.C.P. (the "Bank") is a public shareholding company incorporated in Kuwait on 23 May 1967 and is registered as a Bank with the Central Bank of Kuwait ("CBK"). The Bank is listed on Boursa Kuwait. Its registered office is at Al Safat Square, Ahmed Al Jaber Street, Kuwait City. It is engaged in banking operations, primarily in Kuwait, United Arab Emirates and Egypt.

These consolidated financial statements of the Bank and its subsidiaries (collectively the "Group") for the year ended 31 December 2025 were authorised for issue by the Bank's Board of Directors on 22 January 2026. The Bank is the ultimate parent of the Group. The annual general assembly of the shareholders has the power to amend these consolidated financial statements after issuance.

2 SUMMARY OF MATERIAL ACCOUNTING POLICIES

2.1 Statement of compliance
The consolidated financial statements of the Group have been prepared in accordance with the regulations for financial services institutions as issued by the Central Bank of Kuwait in the State of Kuwait. These regulations, require banks and other financial institutions regulated by CBK to adopt the IFRS Accounting Standards with an amendment for measuring the expected credit loss ("ECL") on credit facilities at the higher of ECL computed under IFRS 9 – 'Financial Instruments' in accordance with the CBK guidelines or the provisions as required by the CBK instructions along with its consequent impact on related disclosures.

The above framework is hereinafter referred to as "IFRS Accounting Standards as adopted by the CBK for use by the State of Kuwait".

2.2 Basis of preparation
The consolidated financial statements are prepared under the historical cost basis except for "investment securities classified as fair value through profit or loss and as fair value through other comprehensive income", "freehold land", and "derivative financial instruments" that have been measured at fair value.

The consolidated financial statements have been presented in Kuwaiti Dinars ("KD"), which is the Bank's functional currency, rounded to the nearest thousand except when otherwise stated.

2.3 Changes in material accounting policies and disclosures
The Group applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2025. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective. The significant amendments are as follows:

Lack of Exchangeability (Amendments to IAS 21)
For annual reporting periods beginning on or after 1 January 2025, *Lack of Exchangeability – Amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates* specifies how an entity should assess whether a currency is exchangeable and how it should determine a spot exchange rate when exchangeability is lacking. The amendments also require disclosure of information that enables users of an entity's financial statements to understand how the currency not being exchangeable into the other currency affects, or is expected to affect, the entity's financial performance, financial position and cash flows.

This amendment did not have a material impact on the Group's consolidated financial statements.

Other amendments to IFRS Accounting Standards which are effective for annual accounting period starting from 1 January 2025 did not have any material impact on the accounting policies, financial position or performance of the Group.

2 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

2.4 Standards and revisions 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. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

Amendments to the Classification and Measurement of Financial Instruments—Amendments to IFRS 9 and IFRS 7
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), which are effective from annual periods starting on or after 1 January 2026. The Amendments include:

- Clarifications of the requirements for recognition and derecognition of financial assets and liabilities
- 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)

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*, which are effective for reporting periods beginning on or after 1 January 2027. 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 management-defined performance measures, 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.

In addition, 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.

2.5 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank as at 31 December 2025 (the "reporting date") and its subsidiaries (investees which are controlled by the Bank) as at the same date or a date not earlier than one month from the reporting date. The Bank consolidates a subsidiary when it controls it. 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, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

2 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

2.5 Basis of consolidation (continued)

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
- 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 subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the Group's consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of the other comprehensive income are attributed to the equity holders of the Bank 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 into 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 subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group lose control over a subsidiary, it derecognises the related assets (including goodwill and intangible assets), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in consolidated income statement. Any investment retained is recognised at fair value.

The subsidiaries of the Group are as follows:

			Effective interest as at	
Name of company	***Country of incorporation***	***Principal business***	***31 December 2025***	*31 December 2024*
Ahli Capital Investment Company K.S.C. (Closed)	Kuwait	Investment	**99.8%**	99.8%
Al Ahli Bank of Kuwait Egypt S.A.E ("ABK- EGYPT")	Egypt	Banking	**98.7%**	98.7%
ABK Cayman Island Limited	Cayman Island	Investment	**100%**	100%
Held through ABK- EGYPT				
Al Ahli Bank of Kuwait - Egypt Leasing Co.	Egypt	Leasing	**98.6%**	98.6%
Al Ahli Bank of Kuwait - Egypt Investment Co.	Egypt	Investment	**98.7%**	98.7%
Held through Ahli Capital Investment Company K.S.C. (Closed)				
ABK Capital (DIFC) Ltd	UAE	Investment	**99.8%**	-

2.6 Initial measurement and recognition of financial assets and financial liabilities

A financial asset or a financial liability is recognised when the Group becomes a party to the contractual provisions of the instrument. All regular way purchase and sale of financial assets are recognised using settlement date accounting i.e. the date the Group receives or delivers the assets. Changes in fair value between the trade date and settlement date are recognised in the consolidated income statement or in other comprehensive income in accordance with the policy applicable to the related instrument. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulations or conventions in the market place.

2 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

2.6 Initial measurement and recognition of financial assets and financial liabilities (continued)

All financial assets or financial liabilities are initially measured at fair value. Transaction costs are added to the cost of all financial instruments except for financial assets classified as investments at fair value through profit or loss. Transaction costs on financial assets classified as investments at fair value through profit or loss are recognised in the consolidated income statement.

2.7 Classification and measurement of financial assets and financial liabilities

The Group determines classification and measurement category of financial assets, except equity instruments and derivatives, based on a combination of the Group's business model for managing the assets and the instruments' contractual cash flow characteristics.

Business model assessment

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

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the Group'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;

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.

SPPI test

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows met the SPPI 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 interest within a basic lending arrangement are typically the consideration for the time value of money, credit risk, other basic lending risks and a profit margin. To make the SPPI 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 interest rate is set.

In contrast, contractual terms that introduce a more than minimum 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 yield on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

The Group reclassifies when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the year.

2.7.1 Financial assets

The Group classifies financial assets upon initial recognition of IFRS 9 into following categories

- Amortised cost (AC)
- Fair value through other comprehensive income (FVOCI),
- Fair Value Through Profit and Loss (FVTPL)

2 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

2.7 Classification and measurement of financial assets and financial liabilities (continued)

2.7.1 Financial assets (continued)

Amortised cost (AC)

The Group classifies financial assets at AC if it meets both of the following conditions and is not designated as at FVTPL:

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

Financial assets classified at AC are subsequently measured at amortised cost using the effective interest method adjusted for impairment losses, if any. Interest income, foreign exchange gains/losses, impairment and any gain or loss on derecognition are recognised in the consolidated income statement. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The amortisation is included in "Interest income" in the consolidated income statement. The losses arising from impairment are recognised in the consolidated income statement under "provision / impairment losses".

The Group classifies cash and balances with banks, Kuwait Government treasury bonds, Central Bank of Kuwait bonds, loans and advances and certain other financial assets as AC.

Fair value through other comprehensive income (FVOCI)

Debt instruments at FVOCI

The Group classifies debt instruments at FVOCI if it meets both of the following conditions: -

1) The contractual terms of the financial asset meet the SPPI test.
2) The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets.

Debt instrument classified as FVOCI are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in Other Comprehensive Income ("OCI"). Interest income and foreign exchange gains and losses are recognised in consolidated income statement. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to the consolidated income statement.

Equity instruments at FVOCI

Upon initial recognition, the Group may elect 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 gains and losses are recognised in OCI. Dividends are recognised in consolidated income statement when the right of the payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment. On derecognition cumulative gains or losses will be reclassified from fair value reserve to retained earnings in the consolidated statement of changes in equity. Further, equity instruments which are fully written down will be derecognised.

Fair Value Through Profit and Loss (FVTPL)

The Group classifies financial assets as FVTPL when they have been purchased primarily for short-term profit making through trading activities or form part of a portfolio of financial instruments that are managed together and includes managed funds, for which there is evidence of a recent pattern of short-term profit taking.

In addition to the above, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

2 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

2.7 Classification and measurement of financial assets and financial liabilities (continued)

2.7.1 Financial assets (continued)

Fair Value Through Profit and Loss (FVTPL) (continued)

Financial assets classified as FVTPL are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in the consolidated income statement. Interest income and dividends are recognised in the consolidated income statement according to the terms of the contract, or when the right to payment has been established.

Day 1 profit or loss

When the fair value of financial instruments at initial recognition differs from the transaction price, the Group accounts for the 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 consolidated income statement. 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 consolidated income statement when the inputs become observable, or when the instrument is derecognised.

2.7.2 Financial liabilities

Financial liabilities are mainly classified as "Financial liabilities other than at fair value through profit or loss". These comprise of Due to banks and other financial institutions, Customers' deposits, Certificates of deposits, Other borrowed funds and certain other liabilities. The Group does not have any "Financial liabilities at fair value through profit or loss".

Financial liabilities other than at fair value through profit or loss are subsequently measured at amortised cost using the effective interest 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 interest rate.

Financial guarantees

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognized in the consolidated financial statements at fair value, being the premium received, in other liabilities. The premium received is amortised in the consolidated income statement in 'net fees and commission income' on a straight-line basis over the life of the guarantee. The guarantee liability is subsequently measured as a higher of the amount initially recognised less amortisation or the value of any financial obligation that may arise therefrom. Any increase in the liability relating to financial guarantees is recognised in consolidated financial statements.

2.7.3 Offsetting of financial assets and liabilities

Financial assets and financial liabilities are only offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and the Group intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

2.7.4 Modification of financial assets and financial liabilities

If the terms of a financial assets and liabilities are modified, the Group evaluates whether the cash flows of modified financial assets and liabilities are substantially different. If the cash flows of the financial assets and liabilities are substantially different, then the contractual rights to cash flows from the original assets and liabilities are deemed to have expired and a new financial assets and liabilities based on the modified terms are recognized at fair value.

If the cash flows of the modified financial assets and liabilities are not substantially different, then the modification does not result in derecognition of the financial assets and liabilities. In this case, the Group recalculates the gross carrying amount of the financial asset and liabilities using the original effective interest rate and recognises the amount arising from adjusting the gross carrying amount as modification gain or loss in the consolidated income statement.

2 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

2.7 Classification and measurement of financial assets and financial liabilities (continued)

2.7.4 Modification of financial assets and financial liabilities (continued)

In the context of IBOR reform, the Group's assessment of whether a change to an amortised cost financial instrument is substantial, is made after applying the practical expedient introduced by IBOR reform Phase 2. This requires the transition from an IBOR to an RFR to be treated as a change to a floating interest rate.

2.7.5 Derivative financial instruments and hedging

Derivative financial instruments

Derivatives include interest rate swaps, forward foreign exchange contracts and options. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives with positive fair values (unrealised gains) are included in other assets and derivatives with negative fair values (unrealised losses) are included in other liabilities in the consolidated statement of financial position. For hedges, which do not qualify for hedge accounting and for "held for trading" derivatives, any gains or losses arising from changes in the fair value of derivatives are taken directly to the consolidated income statement.

An embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract. A derivative that is attached to a financial instrument, but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a separate financial instrument.

The Group makes use of derivative financial instruments to manage exposures to interest rate and foreign currency risks. Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with the changes in fair value recognised in the consolidated income statement.

Hedge accounting

In order to manage particular risks, the Group applies hedge accounting for transactions, which meet the specified criteria. At inception of the hedge relationship, the Group formal hedge accounting documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge effectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

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

2 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

2.7 Classification and measurement of financial assets and financial liabilities (continued)

2.7.5 Derivative financial instruments and hedging (continued)

Hedge accounting (continued)
Any gains or losses arising from changes in the fair value of derivatives are taken directly to consolidated income statement, except for the effective portion of cash flow hedges, which is recognised in OCI and later reclassified to consolidated income statement on disposal of hedge item.

The Group discontinues hedge accounting prospectively when the hedging relationship (or part thereof) ceases to meet the qualifying criteria. This includes instances when the hedging instruments expires or sold/terminated.

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

Fair value hedge
In relation to fair value hedges, which meet the conditions for hedge accounting, any unrealised gain or loss from re-measuring the hedging instrument to fair value is recognised in 'Other assets' or 'Other liabilities' and in the consolidated income statement.

The fair value change on qualifying hedging instruments is recognised in consolidated income statement except when the hedging instrument hedges an equity instrument designated at FVOCI, in which case it is recognized in consolidated statement of comprehensive income. For debt instruments measured at FVOCI, the carrying amount is not adjusted as it is already at fair value, but the hedging gain or loss is recognised in consolidated income statement instead of other comprehensive income. Where hedging gains or losses are recognised in consolidated income statement, they are recognised in the same line as the hedged item.

If the hedging instrument expires or sold/terminated, or where the hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated. In case of fair value hedges of interest-bearing financial instruments, any adjustment relating to the hedge is amortised over the remaining term to maturity.

Cash flow hedge
When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect consolidated income statement, the effective portion of changes in the fair value of the derivative is recognised directly in the other comprehensive income. The amount recognised in the other comprehensive income is removed and included in the consolidated income statement in the same year as the hedged cash flows affect consolidated income statement under the same income statement line item as the hedged item. Any ineffective portion of gain or loss on the fair value of the derivative is recognised immediately in the consolidated income statement.

If the derivative expires or is sold, terminated, or exercised, or no longer meets the criteria for cash flow hedge accounting, or the designation is revoked, then hedge accounting is prospectively discontinued and the amount recognised in the other comprehensive income remains in the other comprehensive income until the forecast transaction affects consolidated income statement. If the forecast transaction is no longer expected to occur, then the balance in the other comprehensive income is recognised immediately in the consolidated income statement.

Hedge of net investment in a foreign operation
Hedges of net investments in a foreign operation are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised in other comprehensive income and accumulated in the foreign currency translation reserve while any gains or losses relating to the ineffective portion are recognised in the consolidated income statement. On disposal of the foreign operation, the cumulative value of any such gains or losses recognised in other comprehensive income is transferred to the consolidated income statement.

2 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

2.8 Derecognition of financial assets and financial liabilities

A financial asset (in whole or in part) is derecognised either when:

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

Where the Group has transferred its right to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

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 would be required to repay.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the consolidated income statement.

2.9 Impairment of financial assets

The Group recognises ECL for loans and advances, non-cash credit facilities in the form of bank guarantees, letters of guarantee, bank acceptances, revocable and irrevocable undrawn commitments (together "credit facilities"), investment in debt securities measured at AC or FVOCI and other financial assets measured at AC.

Balances with the CBK and bonds issued by the CBK and Kuwait government bonds is low risk and fully recoverable and hence no ECL is measured. Equity investments are not subject to ECL.

Impairment of credit facilities shall be recognised at the higher of ECL under IFRS 9 according to the CBK guidelines, and the provisions required by the CBK instructions relating to classification of credit facilities and calculation of their provisions ('the CBK Instructions').

Expected Credit Losses under IFRS 9 according to the CBK guidelines

The Group applies three-stage approach to measuring ECL. Assets migrate through the following three stages based on the change in credit quality since initial recognition.

Stage 1: 12 months ECL
For exposures where there has not been a significant increase in credit risk since initial recognition, the portion of the ECL associated with the probability of default events occurring within next 12 months is recognised.

Stage 2: Lifetime ECL – not credit impaired
For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, a lifetime ECL is recognised.

Stage 3: Lifetime ECL – credit impaired
The Group measures loss allowances at an amount equal to 100% of net exposure i.e. after deduction from the amount of exposure value of collaterals determined in accordance with CBK regulations.

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

2 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

2.9 Impairment of financial assets (continued)

Expected Credit Losses under IFRS 9 according to the CBK guidelines (continued)
Except for retail credit facilities, transfer of credit facilities from Stage 2 to Stage 1 is made after a period of 12 months from the satisfaction of all conditions that triggered classification of the credit facilities to Stage 2. Transfer of credit facilities from Stage 3 to Stage 2 or Stage 1 is subject to notification to the CBK.

When estimating lifetime ECL for undrawn commitments, the Group estimates the expected portion of the commitment that will be drawn down over its expected life in line with the CBK regulations. ECL is then calculated on the stage of the credit facilities.

Determining the stage of Expected Credit Loss
The Group considers a financial instrument with an external rating of "investment grade" as at the reporting date to have low credit risk.

At each reporting date, the Group assesses whether there has been significant increase in credit risk since initial recognition by comparing the risk of default occurring over the remaining expected life from the reporting date with the risk of default at the date of initial recognition. The quantitative criteria used to determine a significant increase in credit risk is a series of relative and absolute thresholds. All financial assets that are 30 days past due 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. Evidence of Stage 2 classification includes observable data about the following:

- Significant deterioration of credit risk rating of the borrower in line with Central Bank of Kuwait regulations
- Restructured accounts where there is principal haircut, or a standstill agreement is signed or where the restructured account carries specific provision.

Credit facilities are classified under Stage 2 when there has been a downgrade in the facility's credit rating by 2 grades for the facilities with Investment Grade and by 1 grade for those with Non-Investment Grade.

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

- the borrower is past due more than 90 days on any material credit obligation to the Group; or the borrower is considered as credit impaired based on qualitative assessment for internal credit risk Management purposes and
- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing security (if any is held);
- Downgrade of the Bond or the Borrower to default grade "D" by any External Rating Agency
- Any fixed income security fails to pay the coupon on the due date or principal on the redemption date and the default continues for over 7 days without any advice to the Bank.

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

- borrower having past due liabilities to public creditors or employees;
- breaches of covenants;
- borrower is deceased; and
- Bankruptcy or declaring insolvency

Any credit impaired or stressed facility that has been restructured would also be considered as in default. The restructured facilities would be required to complete the moratorium period (if any) and meet the scheduled payments (all on current basis) for at least 1 year, or as determined by the Group for consideration for moving the facility to stage 2/stage 1.

2 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

2.9 Impairment of financial assets (continued)

Expected Credit Losses under IFRS 9 according to the CBK guidelines (continued)

Event of default (continued)
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.

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

Measurement of ECLs
ECLs are probability weighted estimates of credit losses and are measured as the present value of all cash shortfalls. 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 Probability of Default (PD) is the likelihood that an obligor will default on its obligations in the future. PD estimation process 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 S&P risk rating system 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 minimum PD is 1% for Non-Investment Grade facilities and 0.75% for Investment Grade credit facilities except for credit facilities granted to Government and Banks rated as Investment Grade by an external rating agency and financing transactions related to consumer and housing loans (except for credit cards).

For credit cards, observed default rates (ODRs) were estimated using a migration based approach over a 12 month performance window . The resulting quarterly ODRs were regressed against the selected macroeconomic variables to estimate portfolio level sensitivity to change in macroeconomic conditions. The scenarios specific impacts are then subsequently used to convert Through the Cycle (TTC) probabilities of default into point in time (PIT) PD term structures at portfolio level. The derived PIT PDs were finally applied at the Pool level to get the PIT PD term structure for ECL , consistent with IFRS 9 requirements.

The Exposure at Default ("EAD") is an estimate of the exposure at a future default date, taking Into account expected changes in the exposure after the reporting date, including repayments of principal and profit, whether scheduled by contract or otherwise, expected drawdowns on committed facilities. As per the CBK requirements, the Group applies 100% Credit Conversion Factor (CCF) on utilized cash and non-cash facilities. For unutilized facilities CCF is applied based on the CBK requirements for leverage ratio issued on 21 October 2014.

Loss given default (LGD) is the magnitude of the likely loss if there is a default. It is usually expressed as a percentage of the EAD. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. CBK has prescribed list of eligible collaterals and minimum hair-cuts that are applied in determination of LGD.

Further, for unsecured senior and subordinate credit facilities minimum LGD threshold applied is 50% and 75% respectively. The maximum period for which the credit losses are determined is the contractual life of a financial asset, including credit cards and other revolving facilities unless the Group has the legal right to call it earlier. However, for financial assets in Stage 2, the Group considers a minimum maturity of 7 years for all credit facilities (excluding consumer financing, credit cards and personal housing financing which is regulated by CBK based on salary) unless credit facilities have non-extendable contractual maturity and final payment is less than 50% of the total facility extended. For consumer financings & credit cards and personal housing financings in Stage 2, the Group considers minimum maturity of 5 years and 15 years respectively.

2 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

2.9 Impairment of financial assets (continued)

Expected Credit Losses under IFRS 9 according to the CBK guidelines (continued)

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 expected credit losses for each portfolio relevant to Kuwait or the respective country where the facility is granted. 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
In its models, the Group relies on a broad range of forward-looking economic information as inputs, such as: GDP growth, unemployment rates, energy and non- energy indices. The inputs and models used for calculating expected credit losses may not always capture all characteristics of the market at the date of the consolidated financial statements. Qualitative adjustments or overlays may be made as temporary adjustments using expert credit judgment.

Multiple forward-looking scenarios
The Group determines its allowance for credit losses using three 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 macro-economic variables, credit risk, and credit losses.

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 AC. In the case of debt instruments measured at FVOCI, the loss allowances for ECL is presented in OCI with no reduction in the carrying amount of the financial asset in the consolidated statement of financial position. For credit cards and revolving facilities that include both a loan and an undrawn commitment, ECLs are presented together with the loan. ECL for loan commitments, letters of credit and financial guarantee contracts are recognised in other liabilities. The Group recognises the ECL charge in the consolidated income statement.

Write-offs
Financial assets are written off either partially or in their entirety only when the Group has stopped pursuing the recovery. 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 credit loss expense.

Loans and advances together with the associated provision account are written off when there is no realistic prospect of future recovery and all collateral have been realised or have been transferred to the Group. If a write off is later recovered, the recovery is recognised in the consolidated income statement.

Financial guarantees are assessed, and impairment loss is recorded in a similar manner as for loans and advances. The carrying amount of the asset is reduced through the use of a provision account and the amount of impairment loss is recognised in the consolidated income statement. If in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reversed by adjusting the provision account.

2 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

2.9 Impairment of financial assets (continued)

Expected Credit Losses under IFRS 9 according to the CBK guidelines (continued)

Write-offs (continued)
In case of the retail portfolio, borrowers have been segmented into pools that exhibit similar risk characteristics. The observed default rate in case of retail portfolio has been calibrated to probability of default using the statistical tools after incorporating macroeconomic factors.

The provision for credit facilities in accordance with the CBK instructions
The Group is required to calculate provisions for credit losses on credit facilities in accordance with the instructions of the CBK on the classification of credit facilities and calculation of provisions. Credit facilities are classified as past due when a payment has not been received on its contractual payment date or if the facility is in excess of pre-approved limits. A credit facility is classified as past due and impaired when the interest/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 but not impaired and past due and impaired loans are managed and monitored as irregular facilities and are classified into the following four categories which are then used to determine the provisions.

Category	Criteria	Specific provisions
Watch list	Irregular for a period up to 90 days	Based on management's judgement
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.

Central Bank of Kuwait directives require the Group to maintain a minimum general provision of 1 per cent on regular cash facilities and 0.5 per cent on regular non- cash credit facilities, net of certain categories of collateral, which are not subject to specific provisioning.

2.10 Impairment of non-financial assets
Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less cost of sale and value in use.

2.11 Cash and cash equivalents
Cash and cash equivalents consist of cash on hand, balances and deposits with banks with original maturity not exceeding thirty days.

2.12 Renegotiated loans
In the event of a default, the Group may seek to restructure loans rather than take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. When the terms and conditions of these loans are renegotiated, the terms and conditions of the new contractual arrangement apply in determining whether these loans remain past due. If renegotiated terms are substantial, the loan is derecognised and recognised as a new facility with amended terms and conditions. Once the terms have been renegotiated without this resulting in the derecognition of the loan, any impairment is measured using the original effective interest rate as calculated before the modification of terms. Management periodically reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur and its classification between stages.

2 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

2.13 Investment in an associate

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The Group's material investment in its associate is accounted for using the equity method. Under the equity method, the investment in the associate is carried in the consolidated statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The aggregate of the Group's share of its associate's post-acquisition profits or losses is recognised in the consolidated income statement and its share of post-acquisition movements in other comprehensive income of associate is recognised in consolidated statement of changes in equity. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

Where applicable, adjustments are made to bring the accounting policies of the associate in line with those of the Group. The difference in reporting date of the associate and the Group is not more than one month. Adjustments are made for the effects of significant transactions or events that occur between that date and the date of the Group's consolidated financial statements.

At each reporting date, the Group determines if there is any objective evidence that the investment in the associate is impaired, in which case the Group calculates the amount of impairment loss as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the consolidated income statement.

Upon loss of significant influence over the associate, the Group measures and recognises any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in the consolidated income statement.

2.14 Premises and equipment

Premises and equipment other than freehold land are stated at cost less accumulated depreciation and impairment losses. Depreciation is provided on all premises and equipment, other than freehold land, at rates calculated to write off the cost of each asset on a straight-line basis over its estimated useful life.

Freehold land is initially recognised at cost. After initial recognition freehold land is carried at its revalued amount which is the fair value at the date of revaluation based on valuations by external independent valuers. The resultant revaluation surplus or deficit is recognised, as a separate component under other comprehensive income to the extent the deficit does not exceed the previously recognised surplus. The portion of the revaluation deficit that exceeds a previously recognised surplus is recognised in the consolidated income statement. To the extent that a revaluation surplus reverses a revaluation loss previously recognised in the consolidated income statement, the increase is recognised in the consolidated statement of comprehensive income. Upon disposal the revaluation surplus relating to the freehold land sold is transferred directly to retained earnings.

The assets residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end. The estimated useful lives of the assets for the calculation of depreciation are as follows:

Buildings	5 years to 40 years
Furniture and fixtures	3 years to 5 years
Hardware and software	3 years to 10 years
Vehicles	5 years to 6 years

The carrying amounts of premises and equipment are reviewed at each consolidated statement of financial position date to determine whether there is any indication of impairment. If any such indication exists, the assets are written down to their recoverable amounts and the impairment loss is recognised in the consolidated income statement. Any gain or loss on the disposal of premises and equipment other than the revaluation surplus on freehold land is recognised in the consolidated income statement.

2 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

2.15 Intangible assets acquired in a business combination

Intangible assets represent separately identifiable non-monetary assets without physical substance arising from business combinations. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition and is recognised separately from goodwill.

Intangibles with finite useful life are carried at cost, less any accumulated amortization and any accumulated impairment losses. Amortization is recognised on a straight-line basis over the useful economic life and assessed for impairment whenever there is an indication that the intangibles may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful economic life is reviewed at least at each financial position date.

Changes in the expected useful economic life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated income statement under “depreciation and amortisation” consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are not amortized but tested for impairment annually by estimating recoverable amount using Value in Use (VIU) or whenever there is an indication that the intangible asset may be impaired, either individually or at the cash-generating unit level. VIU calculation uses a five-year cash flow projection, unless a longer period can be justified. The assessment of indefinite useful life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in the useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement when the asset is derecognised. Impairment losses on intangible assets recognized in the consolidated income statement in previous periods are reversed when there is an increase in the recoverable amount.

2.16 Property acquired in settlement of debt

The Bank occasionally acquires property in settlement of certain loans and advances. Such property is recorded on initial recognition at the lower of the carrying value of the related loans and advances or the current fair value less cost to sell of such assets. After initial recognition these properties are carried at lower of the carrying value or fair value less cost to sell. Fair values are determined by appraisers having an appropriate recognised professional qualification. Gains or losses on disposal, and revaluation changes, are recognised in the consolidated income statement. Such properties are included as part of “Other assets”.

2.17 End of service benefits

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

Defined contribution plan

The Group makes fixed contribution to state plans under a defined contribution plan and has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense in the consolidated income statement when they are due.

2 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

2.18 Treasury shares

Treasury shares consist of the Bank's own issued shares that have been reacquired by the Group and not yet reissued or cancelled. The treasury shares are accounted for using the cost method. Under this method, the weighted average cost of the shares reacquired is charged to a contra account in equity. When the treasury shares are reissued, gains are credited to the "treasury shares reserve", which is not distributable. Any realised losses are charged to the same account to the extent of the credit balance in that account. Any excess losses are charged to retained earnings then to reserves. No cash dividends are paid on these shares. The issue of bonus shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

2.19 Fair value measurement

For those assets and liabilities carried at fair value, the Group measures fair value at each statement of financial position date. 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.

The fair value measurement of financial instruments is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of non-financial instruments takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Fair values of non-financial instruments are measured based on valuation provided by independent valuators.

The fair value of a derivative financial instrument is the equivalent of the unrealised gain or loss from marking to market the derivative financial instrument, using relevant market rates or internal pricing models.

All assets and liabilities for which fair value is measured are categorised and disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable. Valuation is derived from recent arm's length transaction, comparison to similar instruments for which market observable prices exists which includes price to book value multiples, price earnings multiples, Net Asset Value issued by the Fund Manager and external quotes.
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable. Valuation techniques include discounted cash flow method, book value method or other relevant valuation techniques commonly used by market participants. The significant inputs for these valuation techniques include market interest rates, discount rates, terminal growth rate, illiquidity discount and cash flow estimates.

For assets and liabilities that are recognised in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

2 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

2.20 Repurchase agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date at an agreed price (repos) are not derecognised in the consolidated statement of financial position. Amounts received under these agreements are treated as interest bearing liabilities and the difference between the sale and repurchase price treated as interest expense using the effective rate method.

2.21 Revenue recognition

The effective interest rate method

Under IFRS 9, interest income is recorded using the EIR method for all financial assets measured at amortised cost, interest rate derivatives for which hedge accounting is applied and the related amortisation/recycling effect of hedge accounting. Interest income on interest bearing financial assets measured at FVOCI under IFRS 9 is also recorded using the EIR method. Interest expense is also calculated using the EIR method for all financial liabilities held at amortised cost. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset or liability or, when appropriate, a shorter period, to the gross carrying amount of the financial asset.

The EIR (and therefore, the amortised cost of the financial asset) is calculated by taking into account transaction costs and any discount or premium on the acquisition of the financial asset, as well as fees and costs that are an integral part of the EIR. The Bank recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the financial assets. Hence, the EIR calculation also takes into account the effect of potentially different interest rates that may be charged at various stages of the financial asset's expected life, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

If expectations of fixed rate financial assets' or liabilities' cash flows are revised for reasons other than credit risk, then changes to future contractual cash flows are discounted at the original EIR with a consequential adjustment to the carrying amount. The difference from the previous carrying amount is booked as a positive or negative adjustment to the carrying amount of the financial asset or liability on the balance sheet with a corresponding profit or loss impact.

For floating-rate financial instruments, periodic re-estimation of cash flows to reflect the movements in the market rates of interest also alters the effective interest rate, but when instruments were initially recognised at an amount equal to the principal, re-estimating the future interest payments does not significantly affect the carrying amount of the asset or the liability.

Fees and commission income

Fees and commission that are an integral part of the effective interest rate of a financial instrument are treated as an adjustment to the effective interest rate. Other fees and commission are recognized over the period of service. Dividend income is recognised when the right to receive the payment is established.

2.22 Provisions

Provisions are recognised when, as a result of past events, it is probable that an outflow of economic resources will be required to settle a present, legal or constructive obligation and the amount can be reliably estimated. The expense relating to any provision is presented in the income statement net of any reimbursement.

2.23 Taxation

National Labour Support Tax and Zakat

National Labour Support Tax and Zakat was provided for in accordance with the applicable fiscal laws, rules and regulations. Consequent to the implementation of DMTT in the State of Kuwait, the Group is not liable to National Labour Support Tax and Zakat effective from 1 January 2025.

Kuwait Foundation for the Advancement of Sciences

Contribution to Kuwait Foundation for the Advancement of Sciences is provided at 1% of the eligible profits in accordance with the Amiri Decree issued on 12 December 1976.

2 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

2.23 Taxation (continued)

Domestic Minimum Top-up Tax (DMTT)
Income taxes arising from tax law enacted by the State of Kuwait (Law No. 157 of 2024) for implementation of DMTT on entities which are part of multinational group with annual revenues of EUR 750 million or more are provided for in accordance with the Executive regulations issued through Ministerial Resolution No. 55 of 2025. Refer Note 26 for further information.

Taxation is calculated on the basis of the tax rates applicable and prescribed according to the prevailing laws, regulations and instructions of the countries in which the Group operates. Income tax payable on taxable profit ('current tax') is recognised as an expense in the period in which the profits arise in accordance with the fiscal regulations of the respective countries in which the Group operates.

Deferred tax is recognised on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority. Deferred tax assets and liabilities are measured using tax rates and applicable legislation at the reporting date.

2.24 Foreign currencies

Foreign currency transactions are recorded at rates of exchange ruling at value date of the transaction. Monetary assets and liabilities in foreign currencies outstanding at the year-end are translated into Kuwaiti Dinars at rates of exchange ruling at the statement of financial position date.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary assets and liabilities in foreign currencies that are stated at fair value are translated to Kuwaiti Dinars at the foreign exchange rates ruling at the dates that the values were determined. In case of non-monetary assets whose changes in fair values are recognised directly in other comprehensive income, related foreign exchange differences are also recognised directly in other comprehensive income. For other non-monetary assets foreign exchange differences are recognised directly in the consolidated income statement.

Assets and liabilities, both monetary and non-monetary, of foreign operations are translated at the exchange rates prevailing at the statement of financial position date. Operating results of such operations are translated at average exchange rates for the year. The resulting exchange differences are accumulated in other comprehensive income until the disposal of the foreign operation. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is reclassified to consolidated income statement.

2.25 Leases

At inception of a contract, the Group assesses whether the contract is a lease. A contract is a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for a consideration. If the contract is identified as a lease, the Group recognises a right-of-use asset representing right to use the underlying asset and a lease liability to make the lease payments at the lease commencement date.

The Group leases various premises and ATMs. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Leased assets may not be used as security for borrowing purposes. The Group, as a lessee, has adopted the following accounting policy in respect of its leases:

2 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

2.25 Leases (continued)

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 also subject to impairment.

Lease Liability
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. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments or a change in the assessment of an option to purchase the underlying asset. In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable.

The Group presents right-of-use assets in 'premises and equipment' and lease liabilities in 'other liabilities' in the consolidated statement of financial position.

2.26 Contingencies
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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Use of judgements and estimates
The Group bases its estimates and judgements on parameters available when the consolidated financial statements were prepared. Existing circumstances and judgements about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. The basis used by management in determining the carrying values of certain class of assets and the underlying risks therein are discussed below:

Judgements

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 interest on the principal amount outstanding.

Determining whether or not the market for a quoted financial instrument is active requires judgement based on assessment of the volume/market conditions and availability of ready and regular quotes.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimates

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

Fair value measurement

When the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Any changes in these estimates as well as the use of different, but equally reasonable estimates may have an impact on their carrying amounts. Considerable judgement by management is required in the estimation of the fair value of the assets acquired and liabilities assumed as a result of business combination including intangibles and contingent liabilities.

Impairment of financial instruments

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.

Group's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their dependencies. Elements of the ECL models 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 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 macro-economic scenarios and, economic inputs, and the effect on PDs, EADs and LGDs
- Selection of forward-looking macro-economic scenarios and their probability weightings, to derive the economic inputs into the ECL models

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

Incorporation of forward-looking information

The following table shows certain key macro-economic variables (besides others) used to estimate the allowance for credit losses. For the base case, upturn and downturn scenarios, the projections are provided for the forward looking short to medium term view

Macro-economic factor	**Outlook 2026 (2025)**
GDP growth	Positive (Positive)
Energy Index	Negative (Negative)
Non-Energy Index	Negative (Negative)
Unemployment	Stable (Stable)
Market Index Average growth	Positive (Positive)

The macro-economic outlook for some of the international exposures remained conservative compared to other geographies and the models were adjusted accordingly. The weighting of the multiple scenarios remained primarily unchanged with major weights being assigned to "Base scenario", followed by Downturn scenario and upturn scenario in this order. The Group believes that the current macro-economic scenarios will affect some of the geographies where the Group operates and hence the Group has taken a conservative estimate for base as well as downturn scenarios for such geographies.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimates (continued)

Incorporation of forward-looking information (continued)

The Group estimates expected credit loss for all financial assets carried at amortised cost or fair value through other comprehensive income except for equity instruments. The determination of expected credit loss involves significant use of external and internal data and assumptions. Refer Note 2.9 impairment of financial assets for more information.

Impairment of intangibles

The Group determines whether intangibles with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the value in use or fair value less cost to sell of the cash-generating units to which the intangibles with indefinite useful lives are allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Effect of Climate risk

The Group makes use of reasonable and supportable information to make accounting judgments and estimates, this includes information about the observable effects of the physical and transition risks of climate change. Many of the effects arising from climate change will be longer term in nature, with an inherent level of uncertainty, and have limited effect on accounting judgments and estimates.

4 SEGMENTAL INFORMATION

The Group is organised into segments that engage in business activities which earn revenues and incur expenses. These segments are regularly reviewed by the chief operating decision maker for resource allocation and performance assessment. For the purposes of segment reporting the management has grouped the operations into the following operating segments:

Commercial Banking	- Comprising a full range of credit facilities, deposit and related banking services provided to its corporate and institutional customers.
Retail and Private Banking	- Comprising a full range of products and services to customers which includes loans, credit cards, and wealth and asset management.
Treasury and Investments	- Comprising of treasury services provided to customers and balance sheet management activities including money market, derivatives, propriety investment activities, assets management and residual impact of inter-segment fund transfer pricing.

4 SEGMENTAL INFORMATION (continued)

2025	*Commercial banking KD 000*	*Retail and private banking KD 000*	*Treasury and Investments KD 000*	*Total KD 000*
Net interest income	**69,936**	**62,024**	**27,542**	**159,502**
Operating income	**107,608**	**79,281**	**34,580**	**221,469**
Segment results	**54,484**	**39,625**	**23,226**	**117,335**
Unallocated expense				**(39,102)**
Profit for the year before taxation and directors' fee				**78,233**
Segment assets	**3,773,506**	**946,783**	**2,058,519**	**6,778,808**
Unallocated assets				**146,299**
Total assets				**6,925,107**
Segment liabilities	**1,225,537**	**2,401,399**	**2,430,399**	**6,057,335**
Unallocated liabilities				**93,189**
Total liabilities				**6,150,524**

2024	*Commercial banking KD 000*	*Retail and private banking KD 000*	*Treasury and Investments KD 000*	*Total KD 000*
Net interest income	63,672	62,490	18,018	144,180
Operating income	95,649	74,622	30,479	200,750
Segment results	46,885	37,721	19,639	104,245
Unallocated expense				(39,493)
Profit for the year before taxation and directors' fee				64,752
Segment assets	4,124,003	882,333	2,209,834	7,216,170
Unallocated assets				157,343
Total assets				7,373,513
Segment liabilities	1,329,350	2,661,345	2,579,199	6,569,894
Unallocated liabilities				82,698
Total liabilities				6,652,592

4 SEGMENTAL INFORMATION (continued)

Geographic information:
The following table show the Group's operating income and segment assets from international operations (international branches and subsidiaries):

	2025 ***KD 000***	*2024* *KD 000*
Operating income	**89,889**	90,296
Segment assets	**2,483,415**	2,514,669

5 RISK MANAGEMENT

INTRODUCTION
Risk is inherent in the Group's activities but is managed through a process of ongoing risk identification, measurement and monitoring and by setting risk limits and controls. 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 area of responsibilities. The Group has established comprehensive risk frameworks for managing all material risks. The frameworks address the risk identification, measurement and monitoring processes of all material risks across the Group. Risk management is embedded in the decision-making process on all risk types to enable the Group to manage the risks assumed within acceptable levels.

Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, including emphasis on selected geographic and industrial sectors. In addition, the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

The operations of the overseas branches and subsidiaries are also subject to regulatory requirements within the jurisdictions where they operate. Such regulations also prescribe capital adequacy levels, the branches or subsidiaries should maintain besides other regulations to minimise the risk of default and insolvency to meet unforeseen liabilities when these arise.

The risk profile is assessed before entering into hedge transactions which are authorised by the appropriate level of seniority within the Group.

Descriptions of the risk appetite statement along with the risks identified and the methodology used to manage those risks are stated below:

5.1 CREDIT RISK
Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The financial instruments exposed to these risks, the objectives, policies and procedures for managing and measuring these risks is explained in the Risk Management section of the annual report.

The maximum exposure to credit risk as at the statement of financial position date is represented by the carrying amount of each financial asset in the consolidated statement of financial position.

Concentrations of credit risk arise when a number of counter parties are engaged in similar business activities or activities in the same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. This also includes credit exposures to a single borrower or group of related borrowers. Concentrations of credit risk indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location. Maximum concentration of credit risk to a single or group of related counterparties is limited to 15 per cent of the Group's comprehensive capital as determined by the regulatory guidelines.

In accordance with the instructions of the Central Bank of Kuwait dated 18 December 1996, setting out the rules and regulations regarding the classification of credit facilities, the Group has formed an internal committee which is composed of competent professional staff and which has as its purpose the study and evaluation of the existing credit facilities of each customer of the Group. This Committee is required to identify any abnormal situations and difficulties associated with a customer's position, which might cause the debt to be classified as irregular, and to determine an appropriate provisioning level.

5 RISK MANAGEMENT (continued)

5.1 CREDIT RISK (continued)

The Group assesses provisioning requirements by monitoring Expected Credit Losses ("ECL") in line with IFRS 9 guidelines. Refer to Note 2.9 of the material accounting policies for the detailed guidelines.

Significant increase in credit risk

The Group continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12 months ECL or life time ECL, the Group assess whether there has been a significant increase in credit risk since initial recognition. Please refer to Note 2.9 of the material accounting policies for the assessment criteria and indicators of increase in credit risk.

The Group considers a financial asset as 'cured' (i.e. no longer be in default) and therefore reclassified out of stage 3 when it no longer meets any of the default criteria. In respect of restructured facilities which are classified in stage 3, these would be required to complete the moratorium period (if any) and meet the scheduled payments (all on current basis) for at least 1 year, or as determined by the Group for consideration for classifying the facility in stage 2/stage 1.

Internal rating and PD estimation process

In managing its portfolio, the Group utilises ratings and other measures and techniques which seek to take account of all aspects of perceived risk. The Group uses S&P Risk Rating System (CRE) as its internal credit-rating engine. The CRE tool provides the ability to analyse a business and produce risk ratings at both the obligor and facility level. The analysis supports the usage of financial factors as well as non-financial subjective factors. The Group also uses external ratings by recognised rating agencies for externally rated portfolios.

In case of the retail portfolio, borrowers have been segmented into pools that exhibit similar risk characteristics. The observed default rate in case of retail portfolio has been calibrated to probability of default using the statistical tools after incorporating macro-economic factors.

Refer to Note 2.9 of the material accounting policies for further details on stage classification and measurement of ECL, forward looking information etc.

Derivative financial instruments

Credit risk arising from derivative financial instruments is limited to those with positive fair values, as recorded in the consolidated statement of financial position.

Credit-related commitments risks

The Group makes available to its customers, financial guarantees which may require that the Group make payments on their behalf. Such payments are collected from customers based on the terms of the financial guarantees. They expose the Group to risks similar to loans and advances and these are mitigated by the same control processes and policies.

Credit concentration risks

Geographical and industry sector concentrations of financial assets and contingent liabilities with credit risk exposure, after provisions, are as follows:

	2025		*2024*	
	Assets KD 000	***Credit related contingent liabilities KD 000***	*Assets KD 000*	*Credit related contingent liabilities KD 000*
Geographic region:				
Middle East and North Africa (MENA)	**5,823,032**	**927,070**	5,970,247	912,055
Europe	**351,319**	**62,832**	523,067	52,337
Asia Pacific	**110,606**	**137,619**	161,485	211,266
North America	**157,668**	**15,299**	259,210	14,888
Rest of the world	**171,556**	**153**	149,412	15,468
	6,614,181	**1,142,973**	7,063,421	1,206,014

5 RISK MANAGEMENT (continued)

5.1 CREDIT RISK (continued)

Credit concentration risks (continued)

	2025		*2024*	
	Assets KD 000	***Credit related contingent liabilities KD 000***	*Assets KD 000*	*Credit related contingent liabilities KD 000*
Industry sector:				
Trading and manufacturing	**463,690**	**274,261**	614,129	256,351
Banks and other financial institutions	**1,162,728**	**224,191**	1,443,725	216,175
Construction and real estate	**1,003,352**	**409,965**	1,069,662	394,671
Government and related entities	**1,577,208**	**105**	1,610,269	109
Personal	**1,214,141**	**3,953**	1,139,875	2,898
Crude oil & gases	**548,082**	**31,647**	554,993	117,698
Transport and public utilities	**266,405**	**35,438**	228,788	37,290
Others	**378,575**	**163,413**	401,980	180,822
	6,614,181	**1,142,973**	7,063,421	1,206,014

Maximum exposures and credit quality of financial instruments

The table below shows the maximum exposure to credit risk for the components of the consolidated statement of financial position, without taking account of any collateral and other credit enhancements.

The table also shows the credit risk exposure, after provisions, by credit quality of financial assets by class, grade and status:

	Neither past due nor impaired			***Past due including individually impaired***	
2025	***High Grade KD 000***	***Standard grade KD 000***	***Acceptable Grade KD 000***		***Total KD 000***
Balances with banks	**708,141**	**53,780**	**-**	**-**	**761,921**
Kuwait Government treasury bonds	**159,000**	**-**	**-**	**-**	**159,000**
Central Bank of Kuwait bonds	**16,772**	**-**	**-**	**-**	**16,772**
Loans and advances					
- Corporate	**3,153,803**	**440,430**	**32,620**	**67,746**	**3,694,599**
- Retail	**713,919**	**98,042**	**352**	**58,778**	**871,091**
Debt securities	**1,032,416**	**2,800**	**-**	**-**	**1,035,216**
Other assets	**71,133**	**4,215**	**234**	**-**	**75,582**
Total	**5,855,184**	**599,267**	**33,206**	**126,524**	**6,614,181**

	Neither past due nor impaired			*Past due including individually impaired*	
2024	*High Grade KD 000*	*Standard grade KD 000*	*Acceptable Grade KD 000*		*Total KD 000*
Balances with banks	879,555	123,253	-	-	1,002,808
Kuwait Government treasury bonds	5,000	-	-	-	5,000
Central Bank of Kuwait bonds	81,453	-	-	-	81,453
Loans and advances					
- Corporate	3,384,750	517,748	73,902	43,750	4,020,150
- Retail	684,343	81,683	1,205	41,665	808,896
Debt securities	1,063,907	4,550	-	-	1,068,457
Other assets	70,781	5,326	550	-	76,657
Total	6,169,789	732,560	75,657	85,415	7,063,421

5 RISK MANAGEMENT (continued)

5.1 CREDIT RISK (continued)

Maximum exposures and credit quality of financial instruments (continued)

Past due but not impaired loans as at 31 December 2025 amounting to KD 56,591 thousand (31 December 2024: KD 26,773 thousand) are past due for a period less than 30 days and KD 35,101 thousand (31 December 2024: KD 20,067 thousand) are past due for a period between 30 to 90 days. The fair value of collaterals held by the Group for past due loans as at 31 December 2025 was KD 33,480 thousand (31 December 2024: KD 15,877 thousand).

The gross maximum credit risk exposure relating to contingencies amounts as at 31 December 2025 KD 1,142,973 thousand (31 December 2024: KD 1,206,014 thousand).

The high, standard and acceptable grades of classification of loans to customers above is based on inherent credit quality of the counterparties, the assessed risk profile, acceptability and availability of collateral in accordance with Group's internal rating model. The borrower risk rating model takes into consideration key factors, such as business trends, management, financials, collaterals, etc., which are duly weighted to arrive at the rating. These ratings changes /migrations are monitored annually. The Bank has introduced retail risk rating with the launch of a retail risk scorecard, which also provides an end-to-end automated system for processing loans and credit cards. Grading of balances with banks and debt securities are based on the external rating of the counterparties.

The fair value of collateral held by the Group for individually impaired loans and advances to customers and impairment losses are disclosed in Note 11. The Group has taken adequate legal measures to secure recovery of collateral when needed.

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 arise in the future as a result of changes in values.

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are cash, securities, and charges over real estate properties and counter-guarantees.

It is Group's policy to take legal recourse to enforce collaterals where warranted to recover the Bank's dues.

Of the total outstanding loans and advances, KD 1,913,705 thousand (2024: KD 2,018,728 thousand) were secured with a collateral value of KD 3,359,447 thousand (2024: KD 3,126,509 thousand).

5.2 LIQUIDITY RISK

Liquidity is the ongoing ability to accommodate maturing liabilities and deposit withdrawals; fund asset growth and business operations; and meet contractual obligations through unconstrained access to funding at reasonable market rates.

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may also result from an inability to sell a financial asset quickly at close to its fair value. The financial instruments exposed to these risks, the objectives, policies and procedures for managing and measuring these risks are explained in the Risk Management section of the annual report.

5 RISK MANAGEMENT (continued)

5.2 LIQUIDITY RISK (continued)

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted repayment obligations. Repayments, which are subject to notice, are treated as if notice were to be given immediately.

Financial liabilities	***Less than one month KD 000***	***One month to one year KD 000***	***Over one year KD 000***	***Total KD 000***
2025				
Due to banks and other financial institutions	**259,391**	**371,814**	**624,931**	**1,256,136**
Customers' deposits	**1,004,775**	**1,519,080**	**1,685,718**	**4,209,573**
Certificates of Deposits	**61,080**	**91,620**	**-**	**152,700**
Other borrowed funds	**4,726**	**26,698**	**719,306**	**750,730**
Other liabilities	**-**	**77,417**	**16,367**	**93,784**
	1,329,972	**2,086,629**	**3,046,322**	**6,462,923**
Contingent liabilities	**202,973**	**639,329**	**300,671**	**1,142,973**
Contractual amounts of Forward foreign exchange contracts	**102,530**	**183,565**	**-**	**286,095**

Financial liabilities	*Less than one month KD 000*	*One month to one year KD 000*	*Over one year KD 000*	*Total KD 000*
2024				
Due to banks and other financial institutions	331,765	446,633	809,307	1,587,705
Customers' deposits	1,215,228	1,856,434	1,504,457	4,576,119
Other borrowed funds	1,095	282,875	331,178	615,148
Other liabilities	-	76,504	15,686	92,190
	1,548,088	2,662,446	2,660,628	6,871,162
Contingent liabilities	131,005	768,322	306,687	1,206,014
Contractual amounts of Forward foreign exchange contracts	281,750	408,106	-	689,856

The table below summarises the maturity profile of the Group's assets and liabilities. The maturities of assets and liabilities have been determined on the basis of the remaining period at the statement of financial position date to the contractual maturity date, except for equity investments classified at fair value through profit or loss, investment carried at fair value through other comprehensive income, investment in an associate, premises and equipment, intangible assets, other assets, customer sight deposits and other liabilities which has been determined based on management's estimate of liquidation.

The actual maturities may differ from the maturities shown below since the borrower may have the right to prepay obligations with or without prepayment penalties, and customers' deposits might be repaid before their maturity.

5 RISK MANAGEMENT (continued)

5.2 LIQUIDITY RISK (continued)

The maturity profile as at 31 December 2025 is as follows:

	Less than one month KD 000	*One month to one year KD 000*	*One year to five years KD 000*	*Over five years KD 000*	*Total KD 000*
ASSETS					
Cash and balances with banks	**733,838**	**56,566**	**-**	**-**	**790,404**
Kuwait Government treasury bonds	**-**	**25,000**	**87,000**	**47,000**	**159,000**
Central Bank of Kuwait bonds	**-**	**16,772**	**-**	**-**	**16,772**
Loans and advances	**470,237**	**1,608,968**	**1,554,330**	**932,155**	**4,565,690**
Investment securities	**116,906**	**410,796**	**333,880**	**238,568**	**1,100,150**
Investment in an associate	**-**	**-**	**-**	**35,482**	**35,482**
Premises and equipment	**-**	**-**	**-**	**111,987**	**111,987**
Intangible assets	**-**	**-**	**263**	**5,179**	**5,442**
Other assets	**-**	**99,457**	**40,723**	**-**	**140,180**
Total assets	**1,320,981**	**2,217,559**	**2,016,196**	**1,370,371**	**6,925,107**
LIABILITIES					
Due to banks and other financial institutions	**258,759**	**360,702**	**488,400**	**-**	**1,107,861**
Customers' deposits	**995,050**	**1,448,484**	**459,754**	**1,168,409**	**4,071,697**
Certificates of deposit	**60,964**	**90,423**	**-**	**-**	**151,387**
Other borrowed funds	**-**	**-**	**503,324**	**129,448**	**632,772**
Other liabilities	**-**	**141,141**	**45,666**	**-**	**186,807**
Total liabilities	**1,314,773**	**2,040,750**	**1,497,144**	**1,297,857**	**6,150,524**

The maturity profile as at 31 December 2024 was as follows:

	Less than one month KD 000	*One month to one year KD 000*	*One year to five years KD 000*	*Over five years KD 000*	*Total KD 000*
ASSETS					
Cash and balances with banks	939,783	103,400	-	-	1,043,183
Kuwait Government treasury bonds	-	-	5,000	-	5,000
Central Bank of Kuwait bonds	14,000	67,453	-	-	81,453
Loans and advances	633,211	1,552,995	1,638,360	1,004,480	4,829,046
Investment securities	98,087	265,051	364,970	391,127	1,119,235
Investment in an associate	-	-	-	33,434	33,434
Premises and equipment	-	-	-	107,519	107,519
Intangible assets	-	-	386	4,985	5,371
Other assets	21,196	84,874	43,202	-	149,272
Total assets	1,706,277	2,073,773	2,051,918	1,541,545	7,373,513
LIABILITIES					
Due to banks and other financial institutions	346,237	422,248	745,761	-	1,514,246
Customers' deposits	1,199,103	1,775,581	453,073	980,561	4,408,318
Other borrowed funds	-	254,183	184,860	99,420	538,463
Other liabilities	-	148,665	42,900	-	191,565
Total liabilities	1,545,340	2,600,677	1,426,594	1,079,981	6,652,592

5 RISK MANAGEMENT (continued)

5.3 MARKET RISK

5.3.1 INTEREST RATE RISK

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Board has established limits on the interest rate gaps for stipulated years. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits. The financial instruments exposed to these risks, the objectives, policies and procedures for managing and measuring these risks are explained in the Risk Management section of the annual report.

The sensitivity of interest rate variability on the Group's consolidated income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate financial assets and financial liabilities held at 31 December 2025 including the effect of hedging instruments. The sensitivity of interest rate variability on equity is calculated by revaluing fixed rate investments carried at fair value through other comprehensive income, including the effect of any associated hedges as at 31 December 2025 for the effects of the assumed changes in interest rates and is analysed by maturity of the asset or swap.

The following table reflects the effect of 25 basis points interest rate sensitivity, with all other variables held constant.

	Effect (KD 000)			
	2025		*2024*	
	Net profit	***Equity***	*Net profit*	*Equity*
Kuwaiti Dinar	**2,020**	**15**	1,297	2
US Dollars	**286**	**1,376**	792	2,518
Egyptian Pound	**96**	**218**	13	31

5.3.2 CURRENCY RISK

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Board of Directors has set limits on positions by currency. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits. The financial instruments denominated in foreign currencies are exposed to these risks. The objectives, policies and procedures for managing and measuring these risks are explained in the Risk Management section of the annual report.

Hedge of net investment in foreign operations

The Bank hedges part of EGP currency risk of its net investment in foreign operations (ABK- Egypt) using certain USD monetary assets held by ABK- Egypt. Gains or losses on the retranslation of these monetary assets are transferred to consolidated statement of comprehensive income to offset gains or losses on translation of the part of net investment in ABK- Egypt.

The effect on net profit for the year, as a result of 5 per cent change in currency rate due to the changes in fair value of monetary assets and liabilities, with all other variables held constant is shown below:

	Effect (KD 000)	
	2025	*2024*
Currency		
US Dollars	**269**	95
Egyptian Pound	**151**	61
Euro	**11**	19
Others	**75**	156

5 RISK MANAGEMENT (continued)

5.3 MARKET RISK (continued)

5.3.3 EQUITY PRICE RISK

Equity price risk is the risk that the fair values of equities decrease as a result of changes in the levels of equity indices and the value of individual stocks. The equity price risk exposure arises from the Bank's investment held in its proprietary books. The financial instruments exposed to these risks, the objectives, policies and procedures for managing and measuring these risks are explained in the Risk Management section of the annual report.

The effect on consolidated income statement (as a result of equity price risk on investments at fair value through profit and loss) and on Equity (as a result of a change in the fair value of FVOCI equity investments), as at 31 December, due to a 5 per cent change in equity indices, with all other variables held constant is as follows:

	Effect (KD 000)			
	2025		*2024*	
	Net profit	***Equity***	*Net profit*	*Equity*
GCC Stock Exchanges	**109**	**233**	100	325
Other Stock Exchanges	**27**	**303**	24	5

5.3.4 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 or later than expected, such as fixed rate loans and advances when interest rates fall. Majority of the Group's interests bearing financial assets are at floating rates. Also, majority of the interest-bearing financial liabilities have a maturity of less than 1 year and accordingly, the Group is not exposed to significant prepayment risk. The financial instruments exposed to these risks, the objectives, policies and procedures for managing and measuring these risks are explained in the Risk Management section of the annual report.

5.4 OPERATIONAL RISK

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to function, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage these risks. Controls include effective segregation of duties, access to assets and IT resources, authorisation and reconciliation procedures, staff education and assessment processes, compliance monitoring including the use of internal audit. The financial instruments exposed to these risks, the objectives, policies and procedures for managing and measuring these risks are explained in the Risk Management section of the annual report.

The Risk Management Division manages operational risks in line with the Central Bank of Kuwait instructions dated 14 November 1996, concerning the general guidelines for internal controls and the instructions dated 13 December 2003, regarding the sound practices for managing and supervising operational risks in banks.

6 CAPITAL MANAGEMENT

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

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

6 CAPITAL MANAGEMENT (continued)

The Group's regulatory capital and capital adequacy ratios calculated in accordance with Basel III regulations issued by Central Bank of Kuwait via circular 2/RB, RBA/336/2014 dated 24 June 2014 and its amendments are shown below:

	2025 ***KD 000***	*2024* *KD 000*
Risk weighted exposure	**4,879,060**	5,032,500
Capital required	**658,673**	679,387
Capital available:		
Tier 1 capital	**743,834**	691,704
Common equity Tier 1	**652,274**	600,144
Additional Tier 1	**91,560**	91,560
Tier 2 capital	**188,530**	161,014
Total Capital	**932,364**	852,718
Common equity Tier 1 capital adequacy ratio	**13.37%**	11.93%
Tier 1 capital adequacy ratio	**15.25%**	13.74%
Total capital adequacy ratio	**19.11%**	16.94%

The Group's financial leverage ratio calculated in accordance with circular 2/BS/ 342/2014 dated 21 October 2014 is shown below:

	2025 ***KD 000***	*2024* *KD 000*
Tier 1 capital	**743,834**	691,704
Total exposure	**7,852,744**	8,358,953
Financial leverage ratio	**9.47%**	8.28%

The additional disclosures relating to the capital adequacy as per the above circulars are included under the 'Risk Management' section of the annual report.

7 FAIR VALUE MEASUREMENT

Financial Instruments
Financial Instruments comprise of financial assets and financial liabilities.

Financial assets consist of cash and balances with banks, Kuwait Government treasury bonds, Central Bank of Kuwait Bonds, loans and advances, investment securities, certain other assets and derivatives. Financial liabilities consist of due to banks and other financial institutions, customer deposits, certificates of deposit, other borrowed funds and certain other liabilities.

The fair value of financial instruments is categorised as under:

Financial instruments carried at fair value
The financial instruments carried at fair value comprise of investment securities and derivatives. The fair value along with the valuation techniques for investment securities and derivatives are disclosed in Note 12 and Note 29 respectively.

Financial instruments carried at amortised cost
The fair value of financial instruments carried at amortised cost is not materially different from their carrying value as most of these assets and liabilities are of short-term maturities or are re-priced immediately based on market movement in interest rates except for investment securities and subordinated bonds.

7 FAIR VALUE MEASUREMENT (continued)

Non-Financial Instruments
Instruments carried at fair value, other than financial instruments, include freehold land (classified under premises and equipment) which were fair valued using significant valuation inputs based on unobservable market data and are classified under level 3.

If the freehold land was measured using the cost model, the net carrying amount as at 31 December 2025 would be KD 32,380 thousand (31 December 2024: KD 32,377 thousand).

8 RELATED PARTY TRANSACTIONS

These represent transactions with certain related parties (directors and senior management of the Group, close members of their families and entities of which they are principal owners or over which they are able to exercise significant influence and associate of the Group) who were customers of the Group during the year. The terms of these transactions are approved by the Group's management.

In the normal course of business, these related parties have deposits with the Group and credit facilities granted to them by the Group. The balances included in the consolidated financial statements are as follows:

	Number of directors		***Number of other related parties***		***Amount***	
	2025	*2024*	***2025***	*2024*	***2025 KD 000***	*2024 KD 000*
Directors						
Loans and advances	**4**	3	**4**	6	**11,245**	12,429
Customers' deposits	**6**	6	**18**	20	**33,931**	49,959
Portfolio managed by Group	**3**	3	**1**	-	**11,422**	1,062
Commitments and contingent liabilities	**-**	-	**5**	5	**10,994**	9,537
Directors' compensation	**-**	-	**-**	-	**1,253**	1,039

Loans and advances to related parties are secured by collaterals in accordance with the regulations of Central Bank of Kuwait.

Directors' compensation above includes Directors' fees KD 990 thousand (2024: KD 810 thousand) and compensation for participation in executive committees of the Group which are subject to the approval of the shareholders at the annual general meeting. Directors' fees are within the amount permissible under local regulations.

	Number of key management		***Number of other related parties***		***Amount***	
	2025	*2024*	***2025***	*2024*	***2025 KD 000***	*2024 KD 000*
Key management						
Loans and advances	**19**	18	**4**	2	**674**	567
Customers' deposits	**27**	24	**16**	10	**4,145**	3,657

	Number of Associate		***Number of other related parties***		***Amount***	
Associate						
Customers' deposits	**1**	1	**1**	1	**212**	245
Commitments and contingent liabilities	**1**	-	**-**	-	**12**	-

Interest income and interest expense includes KD 511 thousand (2024: KD 628 thousand) and KD 1,752 thousand (2024: KD 1,990 thousand) respectively, on transactions with related parties.

8 RELATED PARTY TRANSACTIONS (continued)

Key management compensation

Compensation for key management is as follows:

	2025	*2024*
	KD 000	*KD 000*
Salaries and other benefits	**4,187**	4,030
Post-employment benefits	**252**	208
	4,439	4,238

9 CASH AND BALANCES WITH BANKS

	2025	*2024*
	KD 000	*KD 000*
Cash on hand and balances with other banks	**57,345**	62,417
Deposits with other banks	**350,878**	398,344
Balances and deposits with Central Banks	**382,404**	582,715
	790,627	1,043,476
Expected credit losses (ECL)	**(223)**	(293)
	790,404	1,043,183

Balances and deposits with Central Banks include balances and deposits with Central Banks of Kuwait, UAE and Egypt. As at the reporting date, the balance with banks and the related ECL are classified under stage 1 (2024: stage 1). There have been no transfers between the stages.

10 KUWAIT GOVERNMENT TREASURY BONDS AND CENTRAL BANK OF KUWAIT BONDS

These are financial instruments carried at amortised cost and are issued on behalf of the Ministry of Finance or issued by Central Bank of Kuwait on its own behalf. As of reporting date, these financial instruments are classified under stage 1 (2024: stage 1) and are of low risk and fully recoverable and hence no ECL is measured.

11 LOANS AND ADVANCES

	Corporate and banks 2025 KD 000	***Retail 2025 KD 000***	***Total 2025 KD 000***	*Corporate and banks 2024 KD 000*	*Retail 2024 KD 000*	*Total 2024 KD 000*
MENA	**3,235,716**	**871,091**	**4,106,807**	3,541,350	808,896	4,350,246
Europe	**222,561**	**-**	**222,561**	268,282	-	268,282
Asia Pacific	**79,367**	**-**	**79,367**	74,303	-	74,303
Rest of the World	**156,955**	**-**	**156,955**	136,215	-	136,215
TOTAL	**3,694,599**	**871,091**	**4,565,690**	4,020,150	808,896	4,829,046

An analysis of provisions for credit losses for the year for loans and advances is as follows:

	2025 KD 000	*2024 KD 000*
At 1 January	**328,790**	319,832
Exchange difference	**243**	(7,180)
Net amounts written off during the year	**(47,001)**	(27,658)
Net charge for the year	**41,419**	43,796
At 31 December	**323,451**	328,790
General Provision	**298,619**	307,707
Specific Provision	**24,832**	21,083

The charge for the year 2025 on non-cash facilities amounted to KD 2,943 thousand (2024: release of KD 2,099 thousand). The total available provision on non-cash facilities amounted to KD 27,358 thousand (2024: KD 24,398 thousand), which is included in other liabilities (Note 20).

Loans and advances individually determined to be impaired with related provision and fair value of collateral held are as follows:

	2025 KD 000	*2024 KD 000*
Gross loans and advances	**62,440**	60,423
Provision	**24,832**	21,083
Fair value of collateral held	**31,661**	21,705

The collateral consists of cash, securities, bank guarantees and properties.

Refer to Note 5.1 for disclosures relating to credit risk management, credit concentration, credit quality by class and credit risk mitigants.

Expected Credit Losses (ECL) on credit facilities determined under IFRS 9 according to the CBK guidelines amounted to KD 136,198 thousand as at 31 December 2025 (2024: KD 149,209 thousand), which is KD 214,611 thousand lower (2024: KD 203,979 thousand lower) than the provision of KD 350,809 thousand (2024: KD 353,188 thousand) for credit losses under CBK Instructions.

11 LOANS AND ADVANCES (continued)

An analysis of the Gross amounts of Credit Facilities, and the corresponding Expected Credit Losses (ECL) based on the staging criteria under IFRS 9 in accordance with CBK guidelines are given below.

	Neither past due nor impaired			*Past due including individually impaired*	
2025	*High Grade KD 000*	*Standard grade KD 000*	*Acceptable Grade KD 000*		*Total KD 000*
- Corporate					
Stage 1	**3,339,680**	**438,824**	**390**	**5,126**	**3,784,020**
Stage 2	**62,278**	**19,694**	**54,267**	**35,392**	**171,631**
Stage 3	**-**	**-**	**-**	**47,674**	**47,674**
- Retail					
Stage 1	**720,076**	**98,341**	**-**	**33,973**	**852,390**
Stage 2	**417**	**684**	**358**	**17,201**	**18,660**
Stage 3	**-**	**-**	**-**	**14,766**	**14,766**
	4,122,451	**557,543**	**55,015**	**154,132**	**4,889,141**
Commitments and contingent liabilities (refer Note 28)	**1,772,432**	**187,343**	**300**	**35,350**	**1,995,425**
Gross credit facilities	**5,894,883**	**744,886**	**55,315**	**189,482**	**6,884,566**
ECL on cash facilities					
- Corporate					
Stage 1	**9,764**	**5,794**	**-**	**22**	**15,580**
Stage 2	**1,561**	**1,697**	**9,806**	**3,046**	**16,110**
Stage 3	**-**	**-**	**-**	**31,004**	**31,004**
- Retail					
Stage 1	**17,127**	**1,570**	**-**	**685**	**19,382**
Stage 2	**-**	**33**	**45**	**1,311**	**1,389**
Stage 3	**-**	**-**	**-**	**14,583**	**14,583**
ECL on non-cash facilities	**3,578**	**3,543**	**61**	**30,968**	**38,150**
Total ECL	**32,030**	**12,637**	**9,912**	**81,619**	**136,198**

11 LOANS AND ADVANCES (continued)

2024	*Neither past due nor impaired*			*Past due including individually impaired*	*Total*
	High Grade KD 000	*Standard grade KD 000*	*Acceptable Grade KD 000*	*KD 000*	*KD 000*
- Corporate					
Stage 1	3,536,044	527,292	-	3,259	4,066,595
Stage 2	70,888	16,398	125,687	8,246	221,219
Stage 3	-	-	-	47,793	47,793
- Retail					
Stage 1	690,531	82,481	-	19,715	792,727
Stage 2	-	26	1,226	15,620	16,872
Stage 3	-	-	-	12,630	12,630
	4,297,463	626,197	126,913	107,263	5,157,836
Commitments and contingent liabilities (refer Note 28)	1,872,446	98,024	28,019	13,395	2,011,884
Gross credit facilities	6,169,909	724,221	154,932	120,658	7,169,720
ECL on cash facilities					
- Corporate					
Stage 1	9,792	8,577	-	8	18,377
Stage 2	3,197	2,381	27,607	355	33,540
Stage 3	-	-	-	41,380	41,380
- Retail					
Stage 1	15,622	1,345	-	988	17,955
Stage 2	-	2	173	1,486	1,661
Stage 3	-	-	-	12,447	12,447
ECL on non-cash facilities	6,993	503	3,804	12,549	23,849
Total ECL	35,604	12,808	31,584	69,213	149,209

The expected credit losses and movement for the year is as follows:

2025	***Stage 1 KD '000***	***Stage 2 KD '000***	***Stage 3 KD '000***	***Total KD '000***
Opening balance of ECL as at 1 January	**40,809**	**42,024**	**66,376**	**149,209**
Net ECL movement for the year	**(1,874)**	**(21,262)**	**57,126**	**33,990**
Net amounts written off during the year	**-**	**-**	**(47,001)**	**(47,001)**
Closing Balance of ECL 31 December	**38,935**	**20,762**	**76,501**	**136,198**

2024	*Stage 1 KD '000*	*Stage 2 KD '000*	*Stage 3 KD '000*	*Total KD '000*
Opening balance of ECL as at 1 January	38,722	37,087	58,297	134,106
Net ECL movement for the year	2,087	4,937	35,737	42,761
Net amounts written off during the year	-	-	(27,658)	(27,658)
Closing Balance of ECL 31 December	40,809	42,024	66,376	149,209

11 LOANS AND ADVANCES (continued)

The Bank noticed non-material cases of curing related to consumer lending during the year, the impact of which is captured in the ECL movement for the year. The ECL movement pertaining to corporate cured accounts amounted to KD 7,442 thousand with an ECL impact of KD 606 thousand (2024: KD 266 thousand with an impact of ECL KD 23 thousand). Further, foreign currency translation had an insignificant impact on overall ECL movement.

12 INVESTMENT SECURITIES

	2025 ***KD 000***	*2024* *KD 000*
Classified as at:		
Fair value through other comprehensive income (FVOCI)	**781,346**	800,108
Amortised cost (AC)	**297,668**	306,045
Fair value through profit or loss (FVTPL)	**21,248**	13,388
	1,100,262	1,119,541
Expected credit losses (ECL)	**(112)**	(306)
	1,100,150	1,119,235

As of 31 December 2025, investments securities include debt securities amounting to KD 460,962 thousand (2024: KD 573,464 thousand) provided as collateral under repurchase agreements.

Valuation of Investments carried at fair value is determined as follows:

	Valuation techniques and key inputs	*FVTPL*		*FVOCI*	
		2025 ***KD 000***	*2024* *KD 000*	***2025*** ***KD 000***	*2024* *KD 000*
Level 1:					
Equity	Quoted bid price	**-**	-	**19,679**	11,058
Debt securities					
- Government	Quoted bid price	**-**	-	**396,615**	443,393
- Non-Government	Quoted bid price	**-**	-	**138,121**	285,160
Level 2:					
Debt securities					
- Government	External quote	**-**	-	**188,384**	16,478
- Non-Government	External quote	**-**	-	**3,050**	2,350
Managed funds	Net asset value basis	**18,631**	11,105	**-**	-
Level 3:					
Debt securities					
- Non-Government	Discounted cash flows	**2,617**	2,283	**8,873**	13,054
Equity	Discounted cash flows/ Dividend discount model/ Market multiples	**-**	-	**26,624**	28,615
		21,248	13,388	**781,346**	800,108

Fair values of financial instruments that are carried at amortised cost are not materially different from their carrying values.

Movement in level 3 of investment securities is summarised as below:

	2025 ***KD 000***	*2024* *KD 000*
Opening balance as at 1 January	**43,952**	31,836
Net (disposal) addition	**(6,205)**	9,719
Change in fair value	**367**	2,397
Closing balance as at 31 December	**38,114**	43,952

12 INVESTMENT SECURITIES (continued)

Investment securities classified under level 3 have cash flows, observable market information of comparable companies, discount rates and estimated maintainable dividend as their significant inputs where a change in these variables will result in change in fair value.

The impact on the consolidated statement of financial position or the consolidated statement of changes in equity would be immaterial if the relevant risk variables used to fair value the securities classified under level 3 were altered by 5 per cent.

There were no material changes in the valuation techniques used for the purpose of measuring fair value of investment securities as compared to the previous year.

Impairment losses on investment securities subject to impairment assessment

Investments in debt securities classified as FVOCI and AC are subject to expected credit losses. As at the reporting date, the Group had debt securities amounting to KD 1,032,711 thousand (2024: KD 1,062,146 thousand), classified under stage 1 and debt securities amounting to KD Nil (2024: KD 4,334 thousand) classified under stage 2. There are no debt securities classified under stage 3.

During the year there has been transfer of debt securities amounting to KD 4,334 thousands from stage 2 to stage 1 (2024: Nil).

13 INVESTMENT IN AN ASSOCIATE

The Bank holds 40 per cent equity interest in Credit One Kuwait Holding Company K.S.C. ("Credit One"), an unquoted holding company incorporated in Kuwait engaged in providing credit facilities to customers on instalment sale of goods and services and leasing of motor vehicles through its subsidiaries.

Summarised financial information is as follows:

	2025 ***KD 000***	*2024* *KD 000*
Current assets	**74,725**	71,705
Non-current assets	**112,376**	101,859
Current liabilities	**80,037**	75,878
Non-current liabilities	**15,076**	11,218
Equity	**88,704**	83,584
Investment in an associate	**35,482**	33,434
Revenue	**33,789**	30,364
Net profit	**9,120**	9,115
Share of results from an associate	**3,648**	3,646

The dividend received from Credit One amounted to KD 1,601 thousand (2024: KD 1,440 thousand).

14 INTANGIBLE ASSETS

	Banking license ***KD 000***	***Core deposits*** ***KD 000***	***Total*** ***KD 000***
At 1 January 2025	**4,985**	**386**	**5,371**
Amortisation charge for the year	-	**(133)**	**(133)**
Exchange adjustment	**194**	**10**	**204**
Net carrying amount as at 31 December 2025	**5,179**	**263**	**5,442**
At 1 January 2024	8,021	834	8,855
Amortisation charge for the year	-	(155)	(155)
Exchange adjustment	(3,036)	(293)	(3,329)
Net carrying amount as at 31 December 2024	4,985	386	5,371

14 INTANGIBLE ASSETS (continued)

Intangible assets of the Group are allocated to ABK- Egypt. Banking license represents intangible asset with indefinite useful life and is annually tested for impairment by estimating the recoverable amount of ABK- Egypt using value-in-use ("VIU") calculations. The Group's VIU calculations are based on approved cash flow projections considering market conditions in Egypt and market position of ABK-Egypt. The cash flow projections have been discounted at 27 per cent (2024: 30 per cent) with a terminal growth rate of 6 per cent (2024: 8 per cent). Based on such analysis, there are no indications that intangible assets are impaired.

Core deposits represents intangible asset with finite life and is amortized on a straight-line basis over its useful life of 12 years.

15 OTHER ASSETS

	2025 ***KD 000***	*2024* *KD 000*
Interest receivable	**45,417**	50,543
Properties acquired in settlement of debts	**40,723**	42,731
Others	**54,040**	55,998
	140,180	149,272

The fair values of properties acquired in settlement of debts are not materially different from their carrying values.

16 DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	2025 ***KD 000***	*2024* *KD 000*
Due to banks	**928,704**	1,373,084
Due to other financial institutions	**179,157**	141,162
	1,107,861	1,514,246

17 CUSTOMERS' DEPOSITS

	2025 ***KD 000***	*2024* *KD 000*
Sight deposits	**1,525,759**	1,399,782
Time deposits	**2,545,938**	3,008,536
	4,071,697	4,408,318

18 CERTIFICATES OF DEPOSIT

The Bank has established a Certificate of Deposit (CD) programme under which the outstanding principal amount will not exceed USD 500 million (or its equivalent in other currencies). The CDs are issued either at a discount to their face value or can bear interest at a fixed or floating rate and can be of tenures from 1 to 364 days.

As at 31 December 2025, the bank has outstanding CDs issued in tranches with a total face value of USD 500 million at a discount with original maturities ranging from 3 months to 9 months.

19 OTHER BORROWED FUNDS

	2025 ***KD 000***	*2024* *KD 000*
Syndicated borrowings (1)	**503,324**	439,043
Subordinated bonds – 2032 (2)	**49,822**	49,722
Subordinated bonds – 2033 (3)	**49,796**	49,698
Subordinated bonds – 2035 (4)	**29,830**	-
	632,772	538,463

(1) All syndicated borrowings are unsecured with a tenor of 3 years.

(2) During 2021 the Bank issued Subordinated Tier 2 bonds equivalent of KD 50 million, on 10 October 2021 with a tenor of up to 11 years, comprising equal tranches of fixed rate bonds and floating rate bonds. Fixed rate bonds carry a coupon rate of 4% per annum for the first six years and reset on the sixth-year anniversary of the date of issuance. Floating rate bonds carry a coupon rate of the prevailing Central Bank of Kuwait discount rate plus 2.25% per annum margin, subject to a maximum of 1% over the prevailing rate for the fixed rate bonds. The rates are reset semi-annually. These bonds are unsecured and callable in whole or in part at the option of the Bank after six years from the date of issuance, subject to certain conditions and regulatory approvals.

(3) During 2023, the Bank issued Subordinated Tier 2 bonds equivalent of KD 50 million, on 29 November 2023 with a tenor of up to 10 years, comprising equal tranches of fixed rate bonds and floating rate bonds. Fixed rate bonds carry a coupon rate of 6.25% per annum for the first five years and reset on the fifth-year anniversary of the date of issuance. Floating rate bonds carry a coupon rate of the prevailing Central Bank of Kuwait discount rate plus 2.25% per annum margin, subject to a maximum of 1% over the prevailing rate for the fixed rate bonds. The rates are reset semi-annually. These bonds are unsecured and callable in whole or in part at the option of the Bank after five years from the date of issuance, subject to certain conditions and regulatory approvals.

(4) During 2025, the Bank issued Subordinated Tier 2 bonds equivalent of KD 30 million, on 08 December 2025 with a tenor of up to 10 years, comprising equal tranches of fixed rate bonds and floating rate bonds. Fixed rate bonds carry a coupon rate of 5.75% per annum for the first five years and reset on the fifth-year anniversary of the date of issuance. Floating rate bonds carry a coupon rate of the prevailing Central Bank of Kuwait discount rate plus 2.25% per annum margin, subject to a maximum of 1% over the prevailing rate for the fixed rate bonds. The rates are reset semi-annually. These bonds are unsecured and callable in whole or in part at the option of the Bank after five years from the date of issuance, subject to certain conditions and regulatory approvals.

20 OTHER LIABILITIES

	2025 ***KD 000***	*2024* *KD 000*
Interest payable	**47,125**	57,644
Staff related accruals	**26,603**	25,325
Accrued expenses and payables	**41,125**	31,758
Provisions on non-cash facilities	**27,358**	24,398
Provision for KFAS	**538**	448
Others	**44,058**	51,992
	186,807	191,565

21 EQUITY

a) The authorised, issued and fully paid share capital comprises of 2,617,762,008 shares (2024: 2,493,106,675 shares) of 100 fils each.

The shareholders at the Annual General Meeting held on 16 April 2025 approved distribution of 5% bonus shares (31 December 2023: 5%) and cash dividend of 10 fils per share (31 December 2023: 9 fils per share) for the year ended 31 December 2024. Accordingly, the authorised, issued and fully paid up capital of the Bank was increased from KD 249,311 thousand to KD 261,776 thousand. The increase in authorised capital has been approved by the Ministry of Commerce and Industry.

b) The balance in the share premium account is not available for distribution.

c) As required by the Companies Law, 10 per cent of the profit for the year attributable to the shareholders' of the Bank before directors' fees and contribution to Kuwait Foundation for the Advancement of Sciences is required to be transferred to the statutory reserve until the reserve reaches 50% of the paid up share capital.

Distribution of this reserve is limited to the amount required to enable the payment of a dividend of 5 per cent of share capital in years when accumulated profits are not sufficient for the payment of a dividend of that amount.

d) The articles of association of the Bank require that an amount of not less than 10 per cent of the profit attributable to the shareholders' of the Bank for the year be transferred annually to a voluntary reserve. The transfer is before directors' fees and contribution to Kuwait Foundation for the Advancement of Sciences. This reserve, over and above the cost of treasury shares is available for distribution. Transfer to this reserve is discretionary and subject to approval of the shareholders at the annual general meeting. The annual general meeting of the shareholders for the year 2022 had approved the discontinuance of transfer to voluntary reserve.

e) Treasury shares and Treasury share reserve:

	2025	*2024*
Number of shares held	**16,923,674**	16,117,152
Percentage of shares held	**0.65%**	0.65%
Market value (KD 000)	**4,959**	4,190
Weighted average market value per share (fils)	**289**	266

The balance in the treasury share reserve account is not available for distribution. Further, an amount equal to the cost of treasury shares is not available for distribution from voluntary reserve throughout the holding period of these treasury shares.

f) The directors have proposed a cash dividend of 10 fils per share (31 December 2024: 10 fils per share) and bonus shares of 5% (31 December 2024: 5%) for the year ended 31 December 2025, subject to the approval of the shareholders at the annual general meeting.

21 EQUITY (continued)

g) Movement in other reserves is as below:

	Property revaluation reserve KD 000	*Foreign currency translation reserve KD 000*	*Employee benefit plan reserve KD 000*	*Total other reserves KD 000*
At 1 January 2024	9,577	(43,534)	91	(33,866)
Other comprehensive gain (loss) for the year	1,120	(23,152)	393	(21,639)
As at 31 December 2024	**10,697**	**(66,686)**	**484**	**(55,505)**
Other comprehensive gain for the year	**388**	**2,843**	**(166)**	**3,065**
As at 31 December 2025	**11,085**	**(63,843)**	**318**	**(52,440)**

h) Perpetual Tier 1 Capital Securities:

The Bank on 12 September 2024 issued Basel III compliant Perpetual Tier 1 Capital Securities (the "Securities "), amounting to USD 300 million (KD 91,560 thousand) and is classified as equity. The Securities are perpetual, subordinated, unsecured and redeemable at the option of the Bank at or after first call date of 12 September 2029. The Securities carry a coupon of 6.5% per annum till first call date and thereafter will be reset at five years interval. Interest will be payable semi-annually in arrears and will be treated as a deduction from equity.

22 INTEREST INCOME

	2025 KD 000	*2024 KD 000*
Balances with banks	**49,356**	44,944
Debt securities	**77,112**	75,054
Loans and advances	**366,799**	357,778
	493,267	477,776

23 INTEREST EXPENSE

	2025 KD 000	*2024 KD 000*
Due to banks and other financial institutions	**60,833**	74,865
Customers' deposits:		
- Sight deposits	**73,369**	59,712
- Time deposits	**164,184**	164,770
Other borrowed funds	**35,379**	34,249
	333,765	333,596

24 NET FEES AND COMMISSION INCOME

	2025 KD 000	*2024 KD 000*
Fees and commission income	**55,186**	52,366
Fees and commission expense	**(17,204)**	(15,262)
	37,982	37,104

25 PROVISION / IMPAIRMENT LOSSES

	2025 KD 000	*2024* KD 000
Provision charge for credit losses on cash and non-cash credit facilities	**44,362**	41,697
Expected credit losses release on other financial assets	**(425)**	(36)
Impairment on property acquired in settlement of debt	**2,360**	1,000
	46,297	42,661

26 TAXATION

The taxation amount during the year, represents contribution to Kuwait Foundation for the Advancement of Sciences amounting to KD 538 thousand (2024: KD 448 thousand) and tax on overseas locations amounting to KD 13,735 thousand (2024: KD 10,309 thousand).

On 31 December 2024, the State of Kuwait issued Law Number 157 of 2024 (the Law) introducing Domestic Minimum Top-up Tax (DMTT) effective from 1 January 2025 on entities which are part of Multi National Entities (MNE) Group with annual revenues of EUR 750 million or more. The Law provides that a top-up tax shall be payable on the taxable income at a rate equal to the difference between 15% and the effective tax rate in each of the jurisdictions it operates in. The Law effectively replaces the existing National Labour Support Tax (NLST) and Zakat tax regimes in Kuwait for MNEs within the scope of this Law. The taxable income and effective tax rate shall be computed in accordance with the Executive Regulations, which was issued on 30 June 2025.

The Group has completed its registration under the MNE Group Tax Law and the management has assessed the applicability of the DMTT law to the Group as of the reporting date and has concluded that the Group should be eligible for tax relief for the current year in accordance with the provision of the Law where the tax liability should be zero.

This relief is subject to annual reassessment with the tax relief available for a maximum period of five years.

27 BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO THE SHAREHOLDERS' OF THE BANK

Basic and diluted earnings per share are computed by dividing the adjusted net profit/ (loss) for the year attributable to shareholders' of the Bank by the weighted average number of shares outstanding during the year net of treasury shares.

	2025	*2024*
Profit for the year attributable to shareholders' of the Bank (KD 000)	**62,591**	52,414
Less: Interest payment on Perpetual Tier 1 Capital Securities (KD 000)	**(5,981)**	-
Adjusted profit for the year attributable to shareholders' of the Bank (KD 000)	**56,610**	52,414
Weighted average number of the Bank's issued and paid-up shares (000)	**2,617,762**	2,617,762
Less: Weighted average number of treasury shares (000)	**(16,924)**	(16,924)
Weighted average number of shares outstanding during the year (000)	**2,600,838**	2,600,838
Basic and diluted earnings per share attributable to shareholders' of the Bank	**22 fils**	20 fils

For computation of earnings per share, the weighted average number of the outstanding shares for 2025 and 2024 have been adjusted for bonus shares issued for 2024 which was approved by the shareholders in the Annual General Assembly Meeting held on 16 April 2025.

28 COMMITMENTS AND CONTINGENT LIABILITIES

	2025 ***KD 000***	*2024* *KD 000*
Acceptances	**59,789**	110,234
Letters of credit	**191,777**	235,749
Guarantees	**891,407**	860,031
	1,142,973	1,206,014

The above balances represent the irrevocable contractual amounts of the Group's off-balance sheet financial instruments that commit the Group to make payments on behalf of the customers in the event of a specific act. The contractual amounts represent the credit risk, assuming that the amounts are fully advanced and that any collateral or other security is of no value. The total contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments may expire or terminate without being funded and/or are cancellable at the discretion of the Bank. Total commitments to extend credit at the statement of financial position date amounted to KD 852,452 thousand (2024: KD 805,870 thousand).

An analysis of the gross amounts of commitments and contingent liabilities, based on the staging criteria under IFRS 9 in accordance with CBK guidelines are given below.

2025	***Stage 1*** ***KD 000***	***Stage 2*** ***KD 000***	***Stage 3*** ***KD 000***	***Total*** ***KD 000***
Contingent liabilities	**1,075,887**	**34,131**	**32,955**	**1,142,973**
Commitments	**848,659**	**3,793**	**-**	**852,452**
Total	**1,924,546**	**37,924**	**32,955**	**1,995,425**

2024	*Stage 1* *KD 000*	*Stage 2* *KD 000*	*Stage 3* *KD 000*	*Total* *KD 000*
Contingent liabilities	1,153,525	39,094	13,395	1,206,014
Commitments	794,696	11,174	-	805,870
Total	1,948,221	50,268	13,395	2,011,884

29 DERIVATIVE FINANCIAL INSTRUMENTS

In the normal course of its business the Group utilises derivative financial instruments to manage its exposure to fluctuations in interest and foreign exchange rates. Interest rate swaps used to hedge the change in fair value of the Group's financial assets and liabilities which qualify as effective hedging instruments are classified as 'fair value hedges'. Other interest rate swaps and forward foreign exchange contracts are carried out for customers or used for hedging purpose but do not meet the qualifying criteria for hedge accounting. The risk exposures on account of derivative financial instruments for customers are covered by entering into back-to-back transactions with counter parties. Derivative transactions result, to varying degrees, in credit as well as market risks.

The Group's measure of derivative related credit risk is the cost of replacing contracts at current market rates should the counter party default on or prior to the settlement date and is limited to the positive fair value of instruments that are favourable to the Group.

Market risk arises as interest and foreign exchange rates fluctuate affecting the value of a contract. For risk management purposes and to control these activities, the Group has established appropriate procedures and limits approved by the Board of Directors.

29 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their contractual amounts. The contractual amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The contractual amounts represent the volume of transactions outstanding at the year end and are not indicative of the credit or market risk.

	2025			*2024*		
	KD 000			*KD 000*		
	Assets	***Liabilities***	***Contractual amounts***	*Assets*	*Liabilities*	*Contractual amounts*
Forward foreign exchange contracts	**759**	**532**	**286,095**	1,039	4,909	689,856
Interest rate swaps (held as fair value hedges)	**838**	**3,915**	**188,198**	3,749	965	293,280
Interest rate swaps (others)	**213**	**171**	**23,009**	-	-	-
	1,810	**4,618**	**497,302**	4,788	5,874	983,136

All derivative contracts are fair valued based on observable market inputs and are classified as level 2.

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.

Swaps
Interest rate swaps relate to contracts taken out by the Bank with other counterparties in which the Bank either receives or pays a floating rate of interest, respectively, in return for paying or receiving a fixed rate of interest.