

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

**INTERIM CONDENSED CONSOLIDATED FINANCIAL
STATEMENTS**

31 MARCH 2021

BOUBYAN BANK K.S.C.P. AND SUBSIDIARIES**INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)**

For the period from 1 January 2021 to 31 March 2021

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REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION TO THE BOARD OF DIRECTORS OF BOUBYAN BANK K.S.C.P.

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Boubyan Bank K.S.C.P. (the “Bank”) and its subsidiaries (collectively “the Group”) as at 31 March 2021, and the related interim condensed consolidated statement of profit or loss, statement of other comprehensive income, statement of changes in equity and statement of cash flow for the three months period then ended. The management of the Bank is responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with the basis of presentation set out in Note 2. Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial information is not prepared, in all material respects, in accordance with the basis of presentation set out in Note 2.

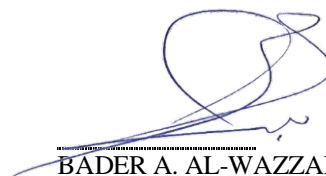
Report on other Legal and Regulatory Requirements

Furthermore, based on our review, the interim condensed consolidated financial information is in agreement with the books of accounts of the Bank. We further report that, to the best of our knowledge and belief, we have not become aware of any violations of the Companies Law No. 1 of 2016, as amended, and its executive regulations, as amended, or of the Bank’s Articles of Association and Memorandum of Incorporation, as amended, during the three months period ended 31 March 2021 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 review, to the best of our knowledge and belief, we have not become aware of any violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organisation of banking business, and its related regulations, and Law No.7 of 2010, concerning the Capital Markets Authority, and its related regulations, during the three months period ended 31 March 2021 that might have had a material effect on the business of the Bank or on its financial position.



ABDULKARIM AL SAMDAN
LICENCE NO. 208 A
EY
AL AIBAN, AL OSAIMI & PARTNERS



BADER A. AL-WAZZAN
LICENCE NO. 62A
DELOITTE & TOUCHE
AL-WAZZAN & CO.

BOUBYAN BANK K.S.C.P. AND SUBSIDIARIES**INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS (UNAUDITED)**

For the period from 1 January 2021 to 31 March 2021

		Three months ended 31 March	
		2021	2020
		KD'000's	KD'000's
	<i>Notes</i>		
Income			
Murabaha and other Islamic financing income		54,848	57,854
Finance cost and distribution to depositors		(15,994)	(25,617)
Net financing income		38,854	32,237
Net investment income	3	1,513	3,084
Net fees and commission income		3,688	3,755
Net foreign exchange gain		1,061	2,287
Operating income		45,116	41,363
Staff costs		(13,021)	(11,711)
General and administrative expenses		(4,827)	(4,938)
Depreciation		(2,441)	(2,198)
Operating expenses		(20,289)	(18,847)
Operating profit before provision for impairment		24,827	22,516
Provision for impairment	4	(11,957)	(11,464)
Operating profit before deductions		12,870	11,052
Taxation	5	(513)	(712)
Net profit for the period		12,357	10,340
Attributable to:			
Equity holders of the Bank		12,615	10,227
Non-controlling interests		(258)	113
Net profit for the period		12,357	10,340
Basic and diluted earnings per share attributable to the equity holders of the Bank (fils)	6	3.97	3.22

The notes from 1 to 18 form an integral part of this interim condensed consolidated financial information.

BOUBYAN BANK K.S.C.P. AND SUBSIDIARIES**INTERIM CONDENSED CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME (UNAUDITED)**

For the period from 1 January 2021 to 31 March 2021

	Three months ended 31 March	
	2021	2020
	KD'000's	KD'000's
Net profit for the period	12,357	10,340
Other comprehensive income /(loss) :		
Items that are or may be reclassified to interim condensed consolidated statement of profit or loss in subsequent periods:		
Change in fair value of debt investments at fair value through other comprehensive income	3,074	(32,954)
Foreign currency translation adjustments	(18)	(606)
Items that will not be reclassified to interim condensed consolidated statement of profit or loss in subsequent periods:		
Change in fair value of equity investments at fair value through other comprehensive income	265	(1,019)
Other comprehensive income /(loss) for the period	3,321	(34,579)
Total comprehensive income /(loss) for the period	15,678	(24,239)
Attributable to:		
Equity holders of the Bank	15,936	(24,352)
Non-controlling interests	(258)	113
Total comprehensive income /(loss) for the period	15,678	(24,239)

The notes from 1 to 18 form an integral part of this interim condensed consolidated financial information.

BOUBYAN BANK K.S.C.P. AND SUBSIDIARIES
INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

As at 31 March 2021

	Notes	31 March 2021 KD'000's	(Audited) 31 December 2020 KD'000's	31 March 2020 KD'000's
Assets				
Cash and balances with banks	7	291,467	286,718	236,322
Deposits with Central Bank of Kuwait		287,015	336,934	264,198
Deposits with other banks		478,355	180,092	488,320
Islamic financing to customers	8	4,936,763	4,823,266	4,576,740
Investment in Sukuk	9	492,084	523,046	390,578
Other investment securities	9	102,749	99,109	94,894
Investments in associates		3,911	4,073	4,941
Investment properties		47,423	47,133	47,159
Other assets		38,751	45,419	45,705
Property and equipment		93,015	91,359	89,640
Total assets		6,771,533	6,437,149	6,238,497
Liabilities and equity				
Liabilities				
Due to banks		477,942	281,371	594,022
Depositors' accounts		5,238,292	5,107,728	4,654,680
Medium term financing		303,112	305,509	232,110
Other liabilities		109,253	115,811	100,044
Total liabilities		6,128,599	5,810,419	5,580,856
Equity				
Share capital		302,827	302,827	288,407
Share premium		156,942	156,942	156,942
Treasury shares	11	(54)	(54)	(54)
Statutory reserve		35,512	35,512	31,848
Voluntary reserve		30,468	30,468	30,468
Other reserves	12	(18,653)	(21,958)	(42,933)
Retained earnings		26,754	14,123	86,418
Equity attributable to equity holders of the Bank		533,796	517,860	551,096
Perpetual Tier 1 Sukuk		75,388	75,388	75,388
Non-controlling interests		33,750	33,482	31,157
Total equity		642,934	626,730	657,641
Total liabilities and equity		6,771,533	6,437,149	6,238,497



Abdulaziz Abdullah Dakheel Al-Shaya
Chairman



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

The notes from 1 to 18 form an integral part of this interim condensed consolidated financial information.

BOUBYAN BANK K.S.C.P. AND SUBSIDIARIES
INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the period from 1 January 2021 to 31 March 2021

	Share capital	Share premium	Treasury shares	Statutory reserve	Voluntary reserve	Other reserves (note 12)	Retained earnings	Equity attributable to equity holders of the Bank	Perpetual tier 1 Sukuk	Non-controlling interests	Total equity
	KD'000's	KD'000's	KD'000's	KD'000's	KD'000's	KD'000's	KD'000's	KD'000's	KD'000's	KD'000's	KD'000's
Balance at 1 January 2021	302,827	156,942	(54)	35,512	30,468	(21,958)	14,123	517,860	75,388	33,482	626,730
Profit / (loss) for the period	-	-	-	-	-	-	12,615	12,615	-	(258)	12,357
Other comprehensive income	-	-	-	-	-	3,321	-	3,321	-	-	3,321
Total comprehensive income/(loss) for the period	-	-	-	-	-	3,321	12,615	15,936	-	(258)	15,678
Net transfer to retained earnings for equity investment at FVOCI	-	-	-	-	-	(16)	16	-	-	-	-
Other movement in non- controlling interests	-	-	-	-	-	-	-	-	-	526	526
Balance at 31 March 2021	302,827	156,942	(54)	35,512	30,468	(18,653)	26,754	533,796	75,388	33,750	642,934
Balance at 1 January 2020	288,407	156,942	(54)	31,848	30,468	(8,354)	76,191	575,448	75,388	2,345	653,181
Profit for the period	-	-	-	-	-	-	10,227	10,227	-	113	10,340
Other comprehensive loss	-	-	-	-	-	(34,579)	-	(34,579)	-	-	(34,579)
Total comprehensive (loss)/ income for the period	-	-	-	-	-	(34,579)	10,227	(24,352)	-	113	(24,239)
Acquisition of non-controlling interests	-	-	-	-	-	-	-	-	-	28,802	28,802
Other movement in non-controlling interests	-	-	-	-	-	-	-	-	-	(103)	(103)
Balance at 31 March 2020	288,407	156,942	(54)	31,848	30,468	(42,933)	86,418	551,096	75,388	31,157	657,641

The notes from 1 to 18 form an integral part of this interim condensed consolidated financial information.

BOUBYAN BANK K.S.C.P. AND SUBSIDIARIES**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)**

For the period from 1 January 2021 to 31 March 2021

	Notes	Three months ended 31 March	
		2021	2020
		KD'000's	KD'000's
OPERATING ACTIVITIES			
Net profit for the period		12,357	10,340
Adjustments for:			
Provision for impairment	4	11,957	11,464
Depreciation		2,441	2,198
Foreign currency translation adjustments		(5,817)	(4,251)
Net (gain)/loss from financial assets at fair value through profit or loss	3	(265)	462
Share of results of associates	3	(46)	(377)
Net gain on acquisition of subsidiary		-	(2,227)
Dividend income	3	(640)	(495)
Operating profit before changes in operating assets and liabilities		19,987	17,114
Changes in operating assets and liabilities:			
Deposits with Central Bank of Kuwait		61,396	7,924
Deposits with other banks		(21,772)	(39,802)
Islamic financing to customers		(125,659)	(238,529)
Other assets		6,682	13,816
Due to banks		196,571	302,774
Depositors' accounts		130,564	(152,084)
Other liabilities		1,844	18,819
Net cash generated from /(used in) operating activities		269,613	(69,968)
INVESTING ACTIVITIES			
Purchase of investment securities		(104,588)	(113,456)
Proceeds from sale/redemption of investment securities		129,007	48,835
Transaction costs related to acquisition of a subsidiary		-	(1,815)
Acquisition of a subsidiary, net of cash acquired		-	(325)
Purchase of investment properties		(585)	(97)
Purchase of property and equipment		(5,312)	(5,899)
Dividend income received	3	640	495
Net cash generated from /(used in) investing activities		19,162	(72,262)
FINANCING ACTIVITIES			
Net movement of non-controlling interest		526	-
Movement in Medium term financing		(1,546)	-
Issue of Global Mid-term Sukuk		-	228,600
Net cash (used in)/ generated from financing activities		(1,020)	228,600
Net increase in cash and cash equivalents		287,755	86,370
Net foreign exchange difference		1,833	(906)
Cash and cash equivalents at beginning of the period		587,200	509,737
Cash and cash equivalents at end of the period	7	876,788	595,201

The notes from 1 to 18 form an integral part of this interim condensed consolidated financial information.

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

For the period from 1 January 2021 to 31 March 2021

1. INCORPORATION AND ACTIVITIES

Boubyan Bank K.S.C.P. ("the Bank") is a Kuwaiti public shareholding company incorporated on 21 September 2004, in accordance with the Commercial Companies Law in the State of Kuwait, by Amiri Decree No. 88 published on April 18th 2004, in accordance with the rules and regulations of the Central Bank of Kuwait ("CBK") (Law No. 30 of 2003).

The Bank's shares were listed on the Kuwait Stock Exchange on 15 May 2006.

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

The Bank is principally engaged in providing banking services, in accordance with Codes of the Islamic Sharia'a, as approved by the Bank's Sharia'a Supervisory Board.

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

This interim condensed consolidated financial information as at and for the three months period ended 31 March 2021 incorporates the financial information of the Bank and its principal operating subsidiaries, BLME Holdings plc, Boubyan Takaful Insurance Company K.S.C. (Closed) and Boubyan Capital Investment Company K.S.C. (Closed), (together referred to as "the Group") and the Group's interests in associates.

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

This interim condensed consolidated financial information was authorised for issue by the Board of Directors on 6 April 2021.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

- (a) The interim condensed consolidated financial information of the Group has been prepared in accordance with International Accounting Standard (IAS) 34, 'Interim Financial Reporting', as amended for point (b) below:
- (b) The interim condensed consolidated financial information have been prepared in accordance with the regulations for financial services institutions as issued by the Central Bank of Kuwait ("CBK") in the State of Kuwait. These regulations, including the CBK circulars recently issued on regulatory measures in response to COVID-19 and related CBK communications, require banks and other financial institutions regulated by CBK to adopt the International Financial Reporting Standards with the following amendments:
 - Expected credit loss ("ECL") to be measured at the higher of ECL on credit facilities computed under IFRS 9 in accordance to the CBK guidelines or the provisions as required by CBK instructions along with its consequent impact on related disclosures; and
 - Recognition of modification losses on financial assets arising from payment holidays to customers in response to Covid-19 to be recognised in retained earnings instead of consolidated statement of profit or loss as required by IFRS 9.

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

The interim condensed consolidated financial information does not contain all information and disclosures required for full financial statements prepared in accordance with IFRS, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2020. Further, results for the three months period ended 31 March 2021, are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2021.

Certain prior period amounts have been reclassified in order to conform to the current period presentation. Such reclassifications do not affect previously reported assets, liabilities, equity and profit for the period.

The accounting policies used in the preparation of this interim condensed consolidated financial information are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2020 except for the adoption of new standards effective as of 1 January 2021 as noted below.

2.2 New standards, interpretations and amendments adopted by the Group

Profit Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free profit rate (RFR).

The amendments include the following practical expedients:

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a profit rate, equivalent to a movement in a market rates.
- Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued

These amendments had no impact on the interim condensed consolidated financial information of the Group. The Group intends to use the practical expedients in future periods if they become applicable.

BOUBYAN BANK K.S.C.P. AND SUBSIDIARIES**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)**

For the period from 1 January 2021 to 31 March 2021

3. NET INVESTMENT INCOME

	Three months ended 31 March	
	2021	2020
	KD'000's	KD'000's
Dividend income	640	495
Net gain/(loss) from financial assets at fair value through profit or loss	265	(462)
Net gain from debt instruments	94	59
Net income from investment properties	468	388
Net gain on business combination	-	2,227
Share of results of associates	46	377
	1,513	3,084

4. PROVISION FOR IMPAIRMENT

	Three months ended 31 March	
	2021	2020
	KD'000's	KD'000's
Provision charge for Islamic financing to customers	12,118	10,500
ECL – Other financial assets	(161)	964
	11,957	11,464

5. TAXATION

	Three months ended 31 March	
	2021	2020
	KD'000's	KD'000's
Contribution to Kuwait Foundation for the Advancement of Sciences ("KFAS")	118	101
National Labour Support Tax ("NLST")	337	279
Zakat (Based on Zakat law no: 46/2006)	135	112
Overseas tax	(77)	220
	513	712

6. BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit for the period attributable to the equity holders of the Bank by the weighted average number of shares outstanding during the period.

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

	Three months ended 31 March	
	2021	2020
Net profit for the period attributable to the equity holders of the Bank (KD'000)	12,615	10,227
Weighted average number of shares outstanding during the period net of treasury shares (thousands of shares)	3,179,324	3,179,348
Basic and diluted earnings per share attributable to the equity holders of the Bank (fils)	3.97	3.22

Earnings per share for the prior period were 3.38 fils before retroactive adjustment to the number of shares following the bonus shares issuance (note 17).

BOUBYAN BANK K.S.C.P. AND SUBSIDIARIES**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)**

For the period from 1 January 2021 to 31 March 2021

7. CASH AND CASH EQUIVALENTS

	(Audited)		
	31 March 2021	31 December 2020	31 March 2020
	KD'000's	KD'000's	KD'000's
Cash and balances with banks	291,467	286,718	236,322
Placements with banks maturing within seven days	585,321	300,482	358,879
	876,788	587,200	595,201

8. ISLAMIC FINANCING TO CUSTOMERS

	(Audited)		
	31 March 2021	31 December 2020	31 March 2020
	KD'000's	KD'000's	KD'000's
Islamic financing to customers	5,076,153	4,950,429	4,664,461
Provision for impairment	(139,390)	(127,163)	(87,721)
	4,936,763	4,823,266	4,576,740

The available provision for impairment on non-cash facilities of **KD 2,693** thousands (31 December 2020: KD 2,737 thousands, 31 March 2020: KD 2,564) is included under other liabilities.

The ECL for Islamic financing as at 31 March 2021 is **KD 63,501 thousand** (31 December 2020: KD 62,255 thousand and 31 March 2020: KD 67,816 thousand) which is lower than the provision for impairment of Islamic finance to customers required by CBK.

An analysis of the carrying amounts of Credit Facilities, and the corresponding Expected Credit Losses based on the staging criteria under IFRS 9 in accordance with CBK regulations is as follows:

	Stage 1 KD'000's	Stage 2 KD'000's	Stage 3 KD'000's	Total KD'000's
31 March 2021				
Islamic financing to customers	4,752,181	263,092	60,880	5,076,153
Contingent liabilities (Note 13)	321,952	78,704	1,647	402,303
ECL allowance for credit facilities	18,881	20,852	23,768	63,501
31 December 2020				
Islamic financing to customers	4,653,576	238,800	58,053	4,950,429
Contingent liabilities (Note 13)	304,692	85,519	1,523	391,734
ECL allowance for credit facilities	20,316	19,780	22,159	62,255
31 March 2020				
Islamic financing to customers	4,502,976	104,163	57,322	4,664,461
Contingent liabilities (Note 13)	319,071	28,730	2,422	350,223
ECL allowance for credit facilities	20,224	7,317	40,275	67,816

BOUBYAN BANK K.S.C.P. AND SUBSIDIARIES**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)**

For the period from 1 January 2021 to 31 March 2021

9. INVESTMENT SECURITIES

	31 March 2021	(Audited) 31 December 2020	31 March 2020
	KD'000's	KD'000's	KD'000's
Investment in Sukuk	492,084	523,046	390,578
Financial assets at fair value through profit or loss	85,440	81,691	74,611
Financial assets at fair value through other comprehensive income	17,309	17,418	20,283
	594,833	622,155	485,472

	31 March 2021	(Audited) 31 December 2020	31 March 2020
	KD'000's	KD'000's	KD'000's
Investment in Sukuk			
Investment in Sukuk- FVOCI	473,406	504,218	390,578
Investment in Sukuk- FVTPL	18,678	18,828	-
	492,084	523,046	390,578
Financial assets at fair value through profit or loss			
Investment in unquoted equity funds	85,440	81,691	74,611
	85,440	81,691	74,611
Financial assets at fair value through other comprehensive income			
Investment in unquoted equity securities	15,401	15,408	20,144
Investment in quoted equity securities	1,908	2,010	139
	17,309	17,418	20,283

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

For the period from 1 January 2020 to 31 March 2021

10. RELATED PARTY TRANSACTIONS

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

	Number of board members or executive officers			Number of related parties			(Audited)		
	31 March 2021	31 December 2020	31 March 2020	31 March 2021	31 December 2020	31 March 2020	31 March 2021	31 December 2020	31 March 2020
							KD'000's	KD'000's	KD'000's
Islamic financing to customers	7	7	5	-	-	1	263	212	1,282
Depositors' accounts	3	4	5	16	17	11	9,875	7,407	4,625
Letters of guarantee and letters of credit	1	1	-	2	2	1	370	370	356
Murabaha and other Islamic financing income							3	14	12
Finance cost and distribution to depositors							(4)	(2)	(13)
Parent Company									
Due from banks							295,086	96,508	214,580
Due to banks							120,423	104,567	286,605
Depositors accounts							541	611	-
Murabaha and other Islamic financing income							168	1,842	835
Finance cost and distribution to depositors							(247)	(2,272)	(807)

BOUBYAN BANK K.S.C.P. AND SUBSIDIARIES**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)**

For the period from 1 January 2021 to 31 March 2021

10. RELATED PARTY TRANSACTIONS (continued)**Compensation of key management personnel**

Details of compensation to key management comprise the following:

	Three months ended 31 March	
	2021	2020
	KD'000's	KD'000's
Short-term benefits	583	610
Post-employment benefits	83	141
Deferred compensation	175	171
	841	922

11. TREASURY SHARES

The Bank held the following treasury shares:

	31 March 2021	(Audited) 31 December 2020	31 March 2020
Number of treasury shares	387,121	368,687	331,112
Treasury shares as a percentage of total issued shares - %	0.01217%	0.01218%	0.01148%
Cost of treasury shares – KD thousand	54	54	54
Market value of treasury shares – KD thousand	232	210	169
Weighted average of market value per share – KD	0.575	0.569	0.598

12. OTHER RESERVES

	Share based payment reserve	Fair value reserve	Foreign currency translation reserve	Change in actuarial valuation reserve	Total
	KD'000's	KD'000's	KD'000's	KD'000's	KD'000's
Balance at 1 January 2021	-	(8,363)	(10,503)	(3,092)	(21,958)
Other comprehensive income/(loss) for the period	-	3,339	(18)	-	3,321
Total comprehensive income/(loss) for the period	-	3,339	(18)	-	3,321
Net transfer to retained earnings for equity investment at FVOCI	-	(16)	-	-	(16)
Balance at 31 March 2021	-	(5,040)	(10,521)	(3,092)	(18,653)
Balance at 1 January 2020	967	167	(9,488)	-	(8,354)
Other comprehensive loss for the period	-	(33,973)	(606)	-	(34,579)
Total comprehensive loss for the period	-	(33,973)	(606)	-	(34,579)
Balance at 31 March 2020	967	(33,806)	(10,094)	-	(42,933)

13. CONTINGENCIES AND COMMITMENTS

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

	31 March 2021	(Audited) 31 December 2020	31 March 2020
	KD'000's	KD'000's	KD'000's
Guarantees	294,485	287,185	262,614
Acceptances and letters of credit	107,818	104,549	87,609
Other commitments	99,670	119,206	80,015
	501,973	510,940	430,238

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14. SEGMENT REPORTING

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

Business Segments

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

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

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

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

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

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

	Consumer banking	Corporate banking	Investment banking	Treasury	Group centre	Total
	KD'000's	KD'000's	KD'000's	KD'000's	KD'000's	KD'000's
Three months ended 31 March 2021						
Net financing income	21,397	11,351	2,129	2,245	1,732	38,854
Operating income	23,006	13,057	4,273	3,301	1,479	45,116
Net profit/(loss) for the period	13,569	11,988	(1,311)	3,093	(14,982)	12,357
Total assets	1,961,304	2,997,270	799,751	958,485	54,723	6,771,533
Total liabilities	3,110,942	311,238	582,477	1,752,825	371,117	6,128,599
Three months ended 31 March 2020						
Net financing income	17,946	10,184	923	1,013	2,171	32,237
Operating income	18,757	12,499	5,257	3,300	1,550	41,363
Net profit/(loss) for the period	9,731	8,930	2,217	3,045	(13,583)	10,340
Total assets	1,668,997	2,827,376	783,519	881,373	77,232	6,238,497
Total liabilities	2,400,775	432,322	592,533	1,880,661	274,565	5,580,856

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15. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in orderly transactions between market participants at the measurement date. Fair values are obtained from quoted market prices, discounted cash flow models or other models as appropriate.

Fair value hierarchy

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

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

	Level 1	Level 2	Level 3	Total
	KD'000's	KD'000's	KD'000's	KD'000's
31 March 2021				
Financial assets at fair value through profit or loss	-	85,440	-	85,440
Investment in Sukuk	492,084	-	-	492,084
Financial assets at fair value through other comprehensive income	1,908	-	15,401	17,309
	493,992	85,440	15,401	594,833
31 December 2020 (Audited)				
Financial assets at fair value through profit or loss	-	81,691	-	81,691
Investment in Sukuk	523,046	-	-	523,046
Financial assets at fair value through other comprehensive income	2,010	-	15,408	17,418
	525,056	81,691	15,408	622,155
31 March 2020				
Financial assets at fair value through profit or loss	-	74,611	-	74,611
Investment in Sukuk	390,578	-	-	390,578
Financial assets at fair value through other comprehensive income	139	-	20,144	20,283
	390,717	74,611	20,144	485,472

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

The movement in Level 3 of financial instrument during the period are as follows:

	At 1 January	Change in fair value	Amortization	Additions/ transfers	Sale/ redemption	Exchange rate movements	At 31 March
	KD'000's	KD'000's	KD'000's	KD'000's	KD'000's	KD'000's	KD'000's
31 March 2021:							
Assets measured at fair value							
Financial assets at fair value through other comprehensive income	15,408	-	-	-	-	(7)	15,401
	15,408	-	-	-	-	(7)	15,401
31 March 2020:							
Assets measured at fair value							
Financial assets at fair value through other comprehensive income	20,624	-	-	160	-	(640)	20,144
	20,624	-	-	160	-	(640)	20,144

The impact on the interim condensed consolidated statement of financial position or the interim condensed consolidated statement of profit and loss and other comprehensive income would be immaterial if the relevant risk variables used to fair value the securities classified under level 2 and level 3 were altered by 5 percent.

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16. PERPETUAL TIER 1 SUKUK

During 2016, the Bank, issued “Tier 1 Sukuk - 2016”, through a Sharia’s compliant Sukuk arrangement amounting to USD 250 million. Tier 1 Sukuk -2016 is a perpetual security in respect of which there is no fixed redemption date and constitutes direct, unsecured, subordinated obligations (senior only to share capital) of the Bank subject to the terms and conditions of the Mudaraba Agreement. The Tier 1 Sukuk is listed on the Irish Stock Exchange and NASDAQ Dubai and callable by the Bank after five-year period ending May 2021 (the “First Call Date”) or any profit payment date thereafter subject to certain redemption conditions. Tier 1 Sukuk - 2016 bears an expected profit rate of 6.75% per annum to be paid semi-annually in arrears until the First Call Date. After that, the expected profit rate will be reset based on then prevailing 5 years U.S Mid Swap Rate plus initial margin of 5.588% per annum. Mudaraba profit will not be accumulated and the event is not considered an event of default. On 22 March 2021, the Bank announced a tender offer to the holders of the outstanding Tier 1 Sukuk – 2016 with an expiration date of 29 March 2021. The Bank has received valid tenders of approximately **USD 73.9 million** in nominal amount with a settlement date of 1 April 2021.

The Bank also decided to issue “Tier 1 Sukuk – 2021”, through a similar Sharia’s compliant Sukuk arrangement amounting to USD 500 million which was fully allocated and priced on 24 March 2021 with a settlement date of 1 April 2021. The Tier 1 Sukuk – 2021 is callable by the Bank after six-year period ending April 2027 and bears an expected profit rate of 3.95% per annum to be paid semi-annually in arrears until this date. After that, the expected profit rate will be reset based on then prevailing 6 years US Treasury Rate plus initial margin of 2.896% per annum. The net proceeds are invested by way of Mudaraba with the Bank (as Mudareb) on an unrestricted co-mingling basis, by the Bank in its general business activities carried out through the general Mudaraba pool.

17. ANNUAL GENERAL ASSEMBLY MEETING

The Annual General Assembly meeting of the shareholders held on 7 March 2021 approved **5%** bonus shares (2019: 5%). The bonus shares will increase the number of issued and fully paid up shares by **151,414,171** shares (2019: **144,203,973** shares) and increase in share capital by **KD 15,141 thousand** (2019: **KD 14,420 thousand**). The approved bonus shares were distributed on 14 April 2021.

18. IMPACT OF COVID-19 PANDEMIC

The COVID-19 pandemic spread rapidly across global geographies causing significant disruption to business and economic activities and bringing unprecedented uncertainty to the global economic environment. Fiscal and monetary authorities worldwide have launched extensive responses designed to mitigate the severe consequences of the pandemic.

Covid-19 support measures

In 2020, Central Bank of Kuwait (CBK) implemented various measures targeted at reinforcing the banking sectors ability to play a vital role in the economy. Those measures are disclosed in the Group’s annual consolidated financial statements for the year ended 31 December 2020.

Expected Credit Loss (ECL) estimates

The Group considered the potential impact of the uncertainties caused by the Covid-19 pandemic together with the associated economic support and relief measures of governments and central banks in its estimation of ECL requirements for the period ended 31 March 2021, making adjustments to macroeconomic variables as appropriate. The Group has also given specific consideration to the impact of COVID-19 on the relevant qualitative and quantitative factors when determining any significant increase in credit risk (SICR) and in assessing indicators of impairment for exposures to potentially affected sectors.

Notwithstanding the above, the ECL requirement for credit facilities estimated as at 31 March 2021 continues to be lower than the provisions required as per CBK instructions. Accordingly, in accordance with Group accounting policy, the higher amount, being the provision required as per CBK instructions, is therefore recognized as the provision requirement for credit losses on credit facilities.

Other impacts

The Group considered the potential impact of the current economic volatility on the reported amounts of the Group’s financial and non-financial assets. The reported amounts best represent management’s assessment based on observable information. Markets however remain volatile and asset carrying values remain sensitive to market fluctuations. The impact of the highly uncertain economic environment remains judgmental and the Group will accordingly continue to reassess its position and the related impact on a regular basis.