بـنـك بـوبـيـان
Boubyan Bank

Kuwait on: 26/01/2021
Ref: 9716/2021

Mr. Mohammad Saud Al-Osaimi
CEO
Boursa Kuwait

Dear Sir,

Subject: Annual Financial Statements for the Year Ended December 31st 2020

With reference to the above subject, we would like to inform you that the Central Bank of Kuwait has approved our bank's closing financial statements for the year ended December 31st 2020 in addition to approving the recommendations of the board of directors to make the distribution of bonus shares valuing 5% of the issued and paid-up capital (5 shares per each 100 shares).

Attached herewith is the form of the annual financial statements for the year ended December in addition to a copy of the approval of the Central Bank of Kuwait of the financial statements of our bank for the said period.

Furthermore, in line with the requirements of Boursa Kuwait Rulebook issued by virtue of resolution no. 1 of 2018 applicable to listed companies classified under the "Premier Market Segment" under which Boubyan Bank is categorized, Boubyan Bank is pleased to announce the Analysts' Conference to be held via Live Webcast at 2:00 pm (Local Time) on Monday, February 01st 2021. Interested analysts may contact our bank at: Investor-Relations@bankboubyan.com in order to be provided with the link to the said conference.

Best regards,

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

بـنـك بـوبـيـان
Boubyan Bank
014

P.O.Box 25507
Safat 13116 Kuwait
ص.ب. 25507
الصفاة 13116 الكويت
Tel. (965) 2232 5000
Fax. (965) 2245 4263
Call Center (965) 1 82 00 82
C.R. 104042
bankboubyan.com

نعمل بإتقان

Financial Results Form Kuwaiti Company (KWD)	نموذج نتائج البيانات المالية الشركات الكويتية (د.ك.)

Financial Year Ended on	2020-12-31	نتائج السنة المالية المنتهية في

Company Name	اسم الشركة
Boubyan Bank K.S.C.P	بنك بوبيان (ش.م.ك) عامة
Board of Directors Meeting Date	تاريخ اجتماع مجلس الإدارة
2021-01-10	
Required Documents	المستندات الواجب إرفاقها بالنموذج
☒ Approved financial statements ☒ Approved auditor's report	☒ نسخة من البيانات المالية المعتمدة ☒ نسخة من تقرير مراقب الحسابات المعتمد

التغيير (%) Change (%)	السنة المقارنة Comparative Year	السنة الحالية Current Year	البيان Statement
	2019-12-31	2020-12-31	
-45%	62,647,069	**34,421,157**	صافي الربح (الخسارة) الخاص بمساهمي الشركة الأم Net Profit (Loss) represents the amount attributable to the owners of the parent Company
-50%	19.41	**9.66**	ربحية (خسارة) السهم الأساسية والمخففة Basic & Diluted Earnings per Share
4%	3,320,208,470	**3,464,667,000**	الموجودات المتداولة Current Assets
21%	5,300,548,473	**6,437,149,412**	إجمالي الموجودات Total Assets
15%	4,476,334,691	**5,144,070,000**	المطلوبات المتداولة Current Liabilities
25%	4,647,366,977	**5,810,418,676**	إجمالي المطلوبات Total Liabilities
-10%	575,448,096	**517,860,448**	إجمالي حقوق الملكية الخاصة بمساهمي الشركة الأم Total Equity attributable to the owners of the Parent Company
15%	145,768,916	**167,482,015**	إجمالي الإيرادات التشغيلية Total Operating Revenue
10%	84,705,424	**93,084,939**	صافي الربح (الخسارة) التشغيلية Net Operating Profit (Loss)
--	لا يوجد NIL	**لا يوجد NIL**	الخسائر المتراكمة / رأس المال المدفوع Accumulated Loss / Paid-Up Share Capital

التغيير (%) Change (%)	الربع الرابع المقارن Fourth quarter Comparative Year 2019-12-31	الربع الرابع الحالي Fourth quarter Current Year 2020-12-31	البيان Statement
-36%	17,418,134	**11,178,986**	صافي الربح (الخسارة) الخاص بمساهمي الشركة الأم Net Profit (Loss) represents the amount attributable to the owners of the parent Company
-42%	4.91	**2.85**	ربحية (خسارة) السهم الأساسية والمخففة Basic & Diluted Earnings per Share
22%	36,379,090	**44,274,810**	إجمالي الإيرادات التشغيلية Total Operating Revenue
17%	19,484,568	**22,835,407**	صافي الربح (الخسارة) التشغيلية Net Operating Profit (Loss)

- Not Applicable for first Quarter
- لا ينطبق على الربع الأول

Increase/Decrease in Net Profit (Loss) is due to	**سبب ارتفاع/انخفاض صافي الربح (الخسارة)**
The decrease in net profit for the Year ended 31 December 2020 as compared to year ended 31 December 2019 was primarily due to the increase in the provision for impairment by **KD 40,303,545** which was partially offset by the increase in operating profit by **KD 8,379,515.**	يعود الانخفاض في صافي الربح للسنة المنتهية في 31 ديسمبر 2020 مقارنة بالسنة المنتهية في 31 ديسمبر 2019 بشكل رئيسى إلى الزيادة في مخصص إنخفاض القيمة بمبلغ **40,303,545** د.ك. والذى قابله جزئياً زيادة فى الأرباح التشغيلية بمبلغ **8,379,515** د.ك.
Total Revenue realized from dealing with related parties (value, KWD)	**بلغ إجمالي الإيرادات من التعاملات مع الأطراف ذات الصلة (المبلغ د.ك.)**
KWD 1,855,784	**1,855,784** دينار كويتي
Total Expenditures incurred from dealing with related parties (value, KWD)	**بلغ إجمالي المصروفات من التعاملات مع الأطراف ذات الصلة (المبلغ د.ك.)**
KWD 2,274,328	**2,274,328** دينار كويتي

Corporate Actions				استحقاقات الأسهم (الإجراءات المؤسسية)
	القيمة			النسبة
توزيعات نقدية Cash Dividends	لا يوجد Nil			لا يوجد Nil
توزيعات أسهم منحة Bonus Share	151,414,172 سهم بقيمة 15,141,417.200 دينار كويتي			%5
توزيعات أخرى Other Dividend	لا يوجد Nil			لا يوجد Nil
عدم توزيع أرباح No Dividends	-			-
زيادة رأس المال Capital Increase	يوجد Nil	علاوة الإصدار Issue Premium	يوجد Nil	يوجد Nil
تخفيض رأس المال Capital Decrease	يوجد Nil			يوجد Nil

The Company's comments in case the auditor has concerns or a qualified opinion	تعقيب الشركة في حال قيام مراقب الحسابات بإبداء ملاحظات أو تحفظات
There are no comments raised by the auditor	لا يوجد أي ملاحظات أبداها مراقب الحسابات

الاسم Name	المسمى الوظيفي Title	التوقيع Signature	ختم الشركة Company Seal
عادل عبد الوهاب الماجد	نائب رئيس مجلس الإدارة والرئيس التنفيذي للمجموعة		بنك بوبيان Boubyan Bank 014

Attach a copy of the financial statements approved by the Board of Directors and the approved auditor's report

يجب ارفاق نسخة البيانات المالية المعتمدة من مجلس الإدارة وتقرير مراقب الحسابات المعتمد

Building a better working world

Ernst & Young
Al Aiban, Al Osaimi & Partners
P.O. Box 74
18–20th Floor, Baitak Tower
Ahmed Al Jaber Street
Safat Square 13001, Kuwait

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

Deloitte & Touche
Al-Wazzan & Co.

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

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

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Boubyan Bank K.S.C.P (the "Bank") and its subsidiaries (together, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2020, and the related consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs), as adopted by the Central Bank of Kuwait 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 *Auditor's 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' *Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

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

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

Key Audit Matters (continued)

We have identified the following key audit matter:

Credit losses on Islamic financing to customers
The recognition of credit losses on cash and non-cash Islamic financing ("credit facilities") to customers is the higher of Expected Credit Loss ("ECL") under International Financial Reporting Standard 9: Financial Instruments ("IFRS 9"), determined in accordance with Central Bank of Kuwait (the "CBK") guidelines, and the provision required by the CBK rules based on classification of credit facilities and calculation of their provision (the "CBK rules") as disclosed in the accounting policies in Note 3.5 and Note 14 to the consolidated financial statements.

Recognition of ECL under IFRS 9, determined in accordance with CBK guidelines, is a complex accounting policy, which requires considerable judgement in its implementation. ECL is dependent on management's judgement in assessing significant increase in credit risk and classification of credit facilities into various stages; determining when a default has occurred, development of models for assessing the probability of default of customers and estimating cash flows from recovery procedures or realization of collateral. Furthermore, as disclosed in Note 35, the COVID-19 pandemic significantly impacted management's determination of the ECL and required the application of heightened judgment. As a result, the ECL has a higher than usual degree of uncertainty and the inputs used are inherently subject to change, which may materially change the estimate in future periods.

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

Due to the significance of credit facilities and the related estimation uncertainty and judgement in the impairment calculation, this was considered as a key audit matter. This is further heightened by the high degree of estimation uncertainty due to the economic impacts of COVID-19.

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 adequacy of credit losses. Further, our audit procedures were updated to incorporate consideration of the economic disruption caused by COVID-19, including a focus on rescheduled credit facilities.

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

Key Audit Matters (continued)

Credit losses on Islamic financing to customers (continued)
With respect to the ECL based on IFRS 9, determined in accordance with the CBK guidelines, we have selected samples of credit facilities outstanding as at the reporting date, which included rescheduled credit facilities, and checked the appropriateness of 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 ECL model in terms of key data, methods and assumptions used to ensure they are in line with IFRS 9 requirements, determined in accordance CBK guidelines. For a sample of credit facilities, we have checked the appropriateness of the Group's staging criteria, Exposure at Default ("EAD") Probability of Default ("PD") and Loss Given Default ("LGD") including the eligibility and value of collateral considered in the ECL models used by the Group and the overlays considered by the management in view of the ongoing COVID-19 pandemic, in order to determine ECL taking into consideration CBK guidelines. We have also checked the consistency of various inputs and assumptions used by the Group's management to determine ECL.

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

Other information included in the Annual Report of the Group for the year ended 31 December 2020
Management is responsible for the other information. Other information consists of the information included in Annual Report of the Group for the year ended 31 December 2020, 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 auditor's report, and we expect to obtain the remaining sections of the Group's Annual Report for the year ended 31 December 2020 after the date of our auditor's report.

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

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

EY
Building a better working world

Deloitte.

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

EY
Building a better working world

Deloitte.

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

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

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

- 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.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance 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.

EY
Building a better working world

Deloitte.

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

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of account have been kept by the Bank and the consolidated financial statements, together with the contents of the report of the Bank's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the Central Bank of Kuwait ("CBK") as stipulated in CBK Circular Nos. 2/RB, RBA/336/2014 dated 24 June 2014, and its amendments, and 2/I.B.S. 343/2014 dated 21 October 2014, and its amendments, 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, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the CBK as stipulated in CBK Circular Nos. 2/RB, RBA /336/2014 dated 24 June 2014, and its amendments and 2/I.B.S. 343/2014 dated 21 October 2014, and its amendments, respectively, the Companies Law No 1 of 2016, as amended, and its executive regulations, as amended, or of the Bank's Memorandum of Incorporation and Articles of Association, have occurred during the year ended 31 December 2020 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, 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 during the year ended 31 December 2020 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. 62 A
DELOITTE & TOUCHE
AL WAZZAN & CO.

26 January 2021
Kuwait

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2020

	Notes	2020 KD'000s	2019 KD'000s
Income			
Murabaha and other Islamic financing income	6	**223,064**	207,629
Finance cost and distribution to depositors		**(84,175)**	(88,170)
Net financing income		**138,889**	119,459
Net investment income	7	**6,836**	6,195
Net fees and commission income	8	**12,275**	16,428
Net foreign exchange gain		**5,157**	3,687
Other income	35	**4,325**	-
Net operating income		**167,482**	145,769
Staff costs		**(45,230)**	(36,094)
General and administrative expenses		**(20,011)**	(17,078)
Depreciation		**(9,156)**	(7,892)
Operating expenses		**(74,397)**	(61,064)
Operating profit before provision for impairment		**93,085**	84,705
Provision for impairment	9	**(59,015)**	(18,711)
Operating profit before taxation and board of directors' remuneration		**34,070**	65,994
Taxation	10	**(73)**	(2,867)
Board of directors' remuneration		**(450)**	(450)
Net profit for the year		**33,547**	62,677
Attributable to:			
Equity holders of the Bank		**34,421**	62,647
Non-controlling interests		**(874)**	30
Net profit for the year		**33,547**	62,677
Basic and diluted earnings per share attributable to the equity holders of the Bank (fils)	11	**9.66**	19.41

The notes from 1 to 35 form an integral part of these consolidated financial statements.

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	Notes	2020 KD'000s	2019 KD'000s
Assets			
Cash and balances with banks	12	**286,718**	232,393
Deposits with Central Bank of Kuwait		**336,934**	306,156
Deposits with other banks	13	**180,092**	330,046
Islamic financing to customers	14	**4,823,266**	3,826,073
Investment in Sukuk	15	**523,046**	306,315
Other investment securities	15	**99,109**	101,215
Investments in associates	17	**4,073**	33,144
Investment properties	18	**47,133**	46,555
Other assets	19	**45,419**	32,422
Property and equipment		**91,359**	86,229
Total assets		**6,437,149**	5,300,548
Liabilities and Equity			
Liabilities			
Due to banks		**281,371**	236,480
Depositors' accounts		**5,107,728**	4,347,226
Medium term financing	20	**305,509**	-
Other liabilities	21	**115,811**	63,661
Total liabilities		**5,810,419**	4,647,367
Equity			
Share capital	22	**302,827**	288,407
Share premium	23	**156,942**	156,942
Treasury shares	25	**(54)**	(54)
Statutory reserve	26	**35,512**	31,848
Voluntary reserve	27	**30,468**	30,468
Other reserves	27	**(21,958)**	(8,354)
Retained earnings		**14,123**	76,191
Equity attributable to equity holders of the Bank		**517,860**	575,448
Perpetual Tier 1 Sukuk	28	**75,388**	75,388
Non-controlling interests		**33,482**	2,345
Total equity		**626,730**	653,181
Total liabilities and equity		**6,437,149**	5,300,548

Abdulaziz Abdullah Dakheel Al-Shaya
Chairman

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

The notes from 1 to 35 form an integral part of these consolidated financial statements.

التاريخ : 26 ينايــــــــر 2021

الإشـارة : 2021/397/105/2

الأخ الفاضل عبدالعزيز عبدالله دخيل الشايع المحترم

رئيس مجلس الإدارة

بنك بوبيان

تحية طيبة وبعد ،

بالإشارة إلى كتاب مصرفكم المؤرخ 2021/1/10 المرفق به نسخة من البيانات المالية الختامية المجمعة لمصرفكم لعام 2020 ، وعطفاً على البيانات والإيضاحات الواردة إلينا في هذا الخصوص والتي كان آخرها بتاريخ 2021/1/24 .

أود الإفادة بأنه بناءً على ما انتهت إليه دراسة البيانات المالية المشار إليها ، فإنه لا يوجد لدينا ملاحظات في هذا الشأن ، كما نفيدكم بموافقة بنك الكويت المركزي على قيام مصرفكم بتوزيع أسهم منحة بنسبة 5% .

وبناءً على ما تقدم ، فإنه يمكن لمصرفكم اتخاذ الإجراءات اللازمة مع الجهات المختصة لعقد الجمعية العامة للبنك .

مع أطيب التحيات .

يوسف جاسم العبيد

398 – نسخة لهيئة أسواق المال .

399 – نسخة لبورصة الكويت .

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

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2020

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

CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

For the year ended 31 December 2020

EY
Building a better working world

Ernst & Young
Al Aiban, Al Osaimi & Partners
P.O. Box 74
18–20th Floor, Baitak Tower
Ahmed Al Jaber Street
Safat Square 13001, Kuwait

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

Deloitte.
Deloitte & Touche
Al-Wazzan & Co.

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

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

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Boubyan Bank K.S.C.P (the "Bank") and its subsidiaries (together, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2020, and the related consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs), as adopted by the Central Bank of Kuwait 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 *Auditor's 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' *Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

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

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

Key Audit Matters (continued)

We have identified the following key audit matter:

Credit losses on Islamic financing to customers
The recognition of credit losses on cash and non-cash Islamic financing ("credit facilities") to customers is the higher of Expected Credit Loss ("ECL") under International Financial Reporting Standard 9: Financial Instruments ("IFRS 9"), determined in accordance with Central Bank of Kuwait (the "CBK") guidelines, and the provision required by the CBK rules based on classification of credit facilities and calculation of their provision (the "CBK rules") as disclosed in the accounting policies in Note 3.5 and Note 14 to the consolidated financial statements.

Recognition of ECL under IFRS 9, determined in accordance with CBK guidelines, is a complex accounting policy, which requires considerable judgement in its implementation. ECL is dependent on management's judgement in assessing significant increase in credit risk and classification of credit facilities into various stages; determining when a default has occurred, development of models for assessing the probability of default of customers and estimating cash flows from recovery procedures or realization of collateral. Furthermore, as disclosed in Note 35, the COVID-19 pandemic significantly impacted management's determination of the ECL and required the application of heightened judgment. As a result, the ECL has a higher than usual degree of uncertainty and the inputs used are inherently subject to change, which may materially change the estimate in future periods.

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

Due to the significance of credit facilities and the related estimation uncertainty and judgement in the impairment calculation, this was considered as a key audit matter. This is further heightened by the high degree of estimation uncertainty due to the economic impacts of COVID-19.

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 adequacy of credit losses. Further, our audit procedures were updated to incorporate consideration of the economic disruption caused by COVID-19, including a focus on rescheduled credit facilities.

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

Key Audit Matters (continued)

Credit losses on Islamic financing to customers (continued)

With respect to the ECL based on IFRS 9, determined in accordance with the CBK guidelines, we have selected samples of credit facilities outstanding as at the reporting date, which included rescheduled credit facilities, and checked the appropriateness of 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 ECL model in terms of key data, methods and assumptions used to ensure they are in line with IFRS 9 requirements, determined in accordance CBK guidelines. For a sample of credit facilities, we have checked the appropriateness of the Group's staging criteria, Exposure at Default ("EAD") Probability of Default ("PD") and Loss Given Default ("LGD") including the eligibility and value of collateral considered in the ECL models used by the Group and the overlays considered by the management in view of the ongoing COVID-19 pandemic, in order to determine ECL taking into consideration CBK guidelines. We have also checked the consistency of various inputs and assumptions used by the Group's management to determine ECL.

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

Other information included in the Annual Report of the Group for the year ended 31 December 2020

Management is responsible for the other information. Other information consists of the information included in Annual Report of the Group for the year ended 31 December 2020, 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 auditor's report, and we expect to obtain the remaining sections of the Group's Annual Report for the year ended 31 December 2020 after the date of our auditor's report.

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

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

EY Building a better working world

Deloitte.

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

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

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

- 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.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of account have been kept by the Bank and the consolidated financial statements, together with the contents of the report of the Bank's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the Central Bank of Kuwait ("CBK") as stipulated in CBK Circular Nos. 2/RB, RBA/336/2014 dated 24 June 2014, and its amendments, and 2/I.B.S. 343/2014 dated 21 October 2014, and its amendments, 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, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the CBK as stipulated in CBK Circular Nos. 2/RB, RBA /336/2014 dated 24 June 2014, and its amendments and 2/I.B.S. 343/2014 dated 21 October 2014, and its amendments, respectively, the Companies Law No 1 of 2016, as amended, and its executive regulations, as amended, or of the Bank's Memorandum of Incorporation and Articles of Association, have occurred during the year ended 31 December 2020 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, 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 during the year ended 31 December 2020 that might have had a material effect on the business of the Bank or on its financial position.

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

26 January 2021
Kuwait

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2020

	Notes	**2020** KD'000s	2019 KD'000s
Income			
Murabaha and other Islamic financing income	6	**223,064**	207,629
Finance cost and distribution to depositors		**(84,175)**	(88,170)
Net financing income		**138,889**	119,459
Net investment income	7	**6,836**	6,195
Net fees and commission income	8	**12,275**	16,428
Net foreign exchange gain		**5,157**	3,687
Other income	35	**4,325**	-
Net operating income		**167,482**	145,769
Staff costs		**(45,230)**	(36,094)
General and administrative expenses		**(20,011)**	(17,078)
Depreciation		**(9,156)**	(7,892)
Operating expenses		**(74,397)**	(61,064)
Operating profit before provision for impairment		**93,085**	84,705
Provision for impairment	9	**(59,015)**	(18,711)
Operating profit before taxation and board of directors' remuneration		**34,070**	65,994
Taxation	10	**(73)**	(2,867)
Board of directors' remuneration		**(450)**	(450)
Net profit for the year		**33,547**	62,677
Attributable to:			
Equity holders of the Bank		**34,421**	62,647
Non-controlling interests		**(874)**	30
Net profit for the year		**33,547**	62,677
Basic and diluted earnings per share attributable to the equity holders of the Bank (fils)	11	**9.66**	19.41

The notes from 1 to 35 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

	2020	2019
	KD'000s	KD'000s
Net profit for the year	**33,547**	62,677
Other comprehensive (loss) / income		
Items that are or may be reclassified to consolidated statement of profit or loss in subsequent periods:		
Change in fair value of debt investments at fair value through other comprehensive income	**(2,861)**	6,303
Foreign currency translation adjustments	**687**	429
Items that will not be reclassified to consolidated statement of profit or loss in subsequent periods:		
Change in fair value of equity investments at fair value through other comprehensive income	**(5,669)**	(9,675)
Re-measurement loss on post-employment benefits (note 21).	**(3,092)**	-
Other comprehensive loss for the year	**(10,935)**	(2,943)
Total comprehensive income for the year	**22,612**	59,734
Attributable to:		
Equity holders of the Bank	**21,784**	59,704
Non-controlling interests	**828**	30
Total comprehensive income for the year	**22,612**	59,734

The notes from 1 to 35 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	Notes	**2020** KD'000s	2019 KD'000s
Assets			
Cash and balances with banks	12	**286,718**	232,393
Deposits with Central Bank of Kuwait		**336,934**	306,156
Deposits with other banks	13	**180,092**	330,046
Islamic financing to customers	14	**4,823,266**	3,826,073
Investment in Sukuk	15	**523,046**	306,315
Other investment securities	15	**99,109**	101,215
Investments in associates	17	**4,073**	33,144
Investment properties	18	**47,133**	46,555
Other assets	19	**45,419**	32,422
Property and equipment		**91,359**	86,229
Total assets		**6,437,149**	5,300,548
Liabilities and Equity			
Liabilities			
Due to banks		**281,371**	236,480
Depositors' accounts		**5,107,728**	4,347,226
Medium term financing	20	**305,509**	-
Other liabilities	21	**115,811**	63,661
Total liabilities		**5,810,419**	4,647,367
Equity			
Share capital	22	**302,827**	288,407
Share premium	23	**156,942**	156,942
Treasury shares	25	**(54)**	(54)
Statutory reserve	26	**35,512**	31,848
Voluntary reserve	27	**30,468**	30,468
Other reserves	27	**(21,958)**	(8,354)
Retained earnings		**14,123**	76,191
Equity attributable to equity holders of the Bank		**517,860**	575,448
Perpetual Tier 1 Sukuk	28	**75,388**	75,388
Non-controlling interests		**33,482**	2,345
Total equity		**626,730**	653,181
Total liabilities and equity		**6,437,149**	5,300,548

Abdulaziz Abdullah Dakheel Al-Shaya
Chairman

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

The notes from 1 to 35 form an integral part of these consolidated financial statements.

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

	Share capital	Share premium	Treasury shares	Statutory reserve	Voluntary reserve	Other reserves (note 27)	Retained earnings	Equity attributable to equity holders of the Bank	Perpetual Tier 1 Sukuk	Non-controlling interests	Total equity
	KD'000s	KD'000s	KD'000s	KD'000s	KD'000s	KD'000s	KD'000s	KD'000s	KD'000s	KD'000s	KD'000s
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 year	-	-	-	-	-	-	34,421	34,421	-	(874)	33,547
Other comprehensive (loss)/ income for the year	-	-	-	-	-	(12,637)	-	(12,637)	-	1,702	(10,935)
Total comprehensive (loss)/ income for the year	-	-	-	-	-	(12,637)	34,421	21,784	-	828	22,612
Acquisition of non-controlling interests	-	-	-	-	-	-	-	-	-	30,581	30,581
Modification loss of deferral of financing instalments * (note 2 and 35)	-	-	-	-	-	-	(48,232)	(48,232)	-	-	(48,232)
Dividends paid (note 24)	-	-	-	-	-	-	(25,954)	(25,954)	-	(171)	(26,125)
Profit paid on Perpetual Tier 1 Sukuk	-	-	-	-	-	-	(5,186)	(5,186)	-	-	(5,186)
Transfer of share based payment reserve	-	-	-	-	-	(967)	967	-	-	-	-
Other movement in non-controlling interests	-	-	-	-	-	-	-	-	-	(101)	(101)
Issue of bonus shares (note 24)	14,420	-	-	-	-	-	(14,420)	-	-	-	-
Transfer to reserves	-	-	-	3,664	-	-	(3,664)	-	-	-	-
Balance at 31 December 2020	302,827	156,942	(54)	35,512	30,468	(21,958)	14,123	517,860	75,388	33,482	626,730

The notes from 1 to 35 form an integral part of these consolidated financial statements.

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the year ended 31 December 2020

	Share capital	Share premium	Treasury shares	Statutory reserve	Voluntary reserve	Other reserves (note 27)	Retained earnings	Equity attributable to equity holders of the Bank	Perpetual Tier 1 Sukuk	Non-controlling interests	Total equity
	KD'000s	KD'000s	KD'000s	KD'000s	KD'000s	KD'000s	KD'000s	KD'000s	KD'000s	KD'000s	KD'000s
Balance at 1 January 2019	238,847	62,896	(643)	25,251	24,158	(4,993)	62,741	408,257	75,388	2,315	485,960
Profit for the year	-	-	-	-	-	-	62,647	62,647	-	30	62,677
Other comprehensive loss	-	-	-	-	-	(2,943)	-	(2,943)	-	-	(2,943)
Total comprehensive (loss) / income for the year	-	-	-	-	-	(2,943)	62,647	59,704	-	30	59,734
Increase in share capital (note 22)	37,618	94,046	-	-	-	-	-	131,664	-	-	131,664
Cost directly related to increase in Share capital	-	-	-	-	-	-	(108)	(108)	-	-	(108)
Transfer of gain on disposal of equity investments at FVOCI to retained earnings	-	-	-	-	-	(4)	4	-	-	-	-
Transfer to reserves	-	-	-	6,597	6,310	-	(12,907)	-	-	-	-
Issue of bonus shares (note 24)	11,942	-	-	-	-	-	(11,942)	-	-	-	-
Cash dividend paid (note 24)	-	-	-	-	-	-	(19,119)	(19,119)	-	-	(19,119)
Profit paid on Perpetual Tier 1 Sukuk	-	-	-	-	-	-	(5,125)	(5,125)	-	-	(5,125)
Sales of treasury shares	-	-	589	-	-	(414)	-	175	-	-	175
Balance at 31 December 2019	288,407	156,942	(54)	31,848	30,468	(8,354)	76,191	575,448	75,388	2,345	653,181

The notes from 1 to 35 form an integral part of these consolidated financial statements.

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	Notes	**2020 KD'000s**	2019 KD'000s
OPERATING ACTIVITIES			
Net profit for the year		**33,547**	62,677
Adjustments for:			
Provision for impairment	9	**59,015**	18,711
Depreciation		**9,156**	7,892
Foreign currency translation adjustments		**2,087**	11,397
Net gain from financial assets at fair value through profit or loss		**(612)**	(1,213)
Gain on deemed acquisition of an associate		**-**	(982)
Share of results of associates		**(272)**	(2,040)
Net gain on acquisition of subsidiary	5	**(2,726)**	-
Unrealized loss from change in fair value of investment properties		**1,553**	1,031
Dividend income		**(2,708)**	(2,405)
Operating profit before changes in operating assets and liabilities		**99,040**	95,068
Changes in operating assets and liabilities:			
Deposits with Central Bank of Kuwait		**20,131**	97,674
Deposits with other banks		**222,486**	(55,770)
Islamic financing to customers		**(675,722)**	(581,707)
Other assets		**15,486**	(8,334)
Due to banks		**(9,877)**	139,264
Depositors' accounts		**300,964**	626,291
Other liabilities		**19,928**	15,151
Net cash (used in) / generated from operating activities		**(7,564)**	327,637
INVESTING ACTIVITIES			
Purchase of investment securities		**(259,342)**	(213,602)
Proceeds from sale/redemption of investment securities		**79,827**	174,085
Transaction costs related to acquisition of a subsidiary	5	**(1,815)**	-
Acquisition of a subsidiary, net of cash acquired	5	**(325)**	-
Dividends received from associates		**36**	83
Proceed from sale of investment in associates		**358**	-
Proceeds from sale of investment properties		**-**	3,702
Purchase of investment properties		**(1,773)**	(27,342)
Purchase of property and equipment		**(13,778)**	(30,085)
Dividend income received		**2,708**	2,405
Net cash used in investing activities		**(194,104)**	(90,754)
FINANCING ACTIVITIES			
Proceeds from increase in share capital		**-**	131,664
Cost directly related to increase in share capital		**-**	(108)
Profit distribution on perpetual Tier 1 Sukuk		**(5,186)**	(5,125)
Proceeds from exercise of share options		**-**	175
Dividends paid		**(25,954)**	(19,119)
Net movement of non-controlling interest		**(272)**	-
Issuance of medium term financing	20	**304,938**	-
Net cash generated from financing activities		**273,526**	107,487
Net increase in cash and cash equivalents		**71,858**	344,370
Net foreign exchange difference		**5,605**	600
Cash and cash equivalents at the beginning of the year		**509,737**	164,767
Cash and cash equivalents at the end of the year	12	**587,200**	509,737

The notes from 1 to 35 form an integral part of these consolidated financial statements.

1. INCORPORATION AND ACTIVITIES

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

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

The Bank is principally engaged in providing banking services, in accordance with Codes of the Islamic Sharia'a, as approved by the Bank's Sharia'a Supervisory Board. On 17 May 2015, the Bank's Articles of Incorporation were amended by adding a new activity, namely, offering securities or selling the same for their issuer, its affiliate or obtaining securities from the issuer or its affiliate for remarketing (issuance management).

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

The total number of employees in the Group was **1,828** employees as at 31 December 2020 (1,728 employees as at 31 December 2019).

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

The consolidated financial statements were authorised for issue by the Board of Directors on 10 January 2021 and the shareholders have the power to amend these consolidated financial statements at the annual assembly meeting.

2. BASIS OF PREPARATION

2.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with the regulations for financial services institutions as issued by the Central Bank of Kuwait ("CBK") in the State of Kuwait. These regulations, 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:

(a) 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
(b) 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 (note 35).

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

The ECL for Islamic financing as at 31 December 2020 is **KD 62,255 thousand** (2019: KD 53,981 thousand) which is lower than the provision for impairment of Islamic finance to customers required by CBK.

2.2 Basis of measurement

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

Certain prior year amounts have been reclassified to conform to the current year presentation. These reclassifications were made in order to more appropriately present certain items of statement of financial position. Such reclassifications do not affect previously reported equity and profit for the year.

2.3 Functional and presentation currency

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

2.4 Changes in accounting policies and disclosures

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the previous year except for the adoption of certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2020. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

2. BASIS OF PREPARATION (CONTINUED)

2.4 Changes in accounting policies and disclosures (continued)

Adoption of profit rate benchmark reform (IBOR reform Phase 1)

The Group has adopted profit rate benchmark reform – Amendments to IFRS 9, IAS 39 and IFRS 7 (IBOR reform Phase 1) with effect from 1 January 2020. IBOR reform Phase 1 includes a number of reliefs, which apply to all hedging relationships that are directly affected by profit rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument during the period before the replacement of an existing profit rate benchmark with an alternative nearly risk-free profit rate (RFR).

This may lead to uncertainty whether a forecast transaction is highly probable and whether prospectively the hedging relationship is expected to be highly effective. IBOR reform Phase 1 provides reliefs which require the Group to assume that hedging relationships are unaffected by the uncertainties caused by IBOR reform. This includes assuming that hedged cash flows are not altered as a result of IBOR reform. Also, the reliefs allow the Group to not discontinue hedging relationships as a result of retrospective or prospective ineffectiveness. These amendments had no impact on the consolidated financial statements of the Group.

Amendments to IAS 1 and IAS 8: Definition of Material

The amendments provide a new definition of material that states, "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the consolidated financial statements of the Group nor is there expected to be any future impact to the Group.

Amendments to IFRS 3: Definition of a Business

The amendment to IFRS 3 clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Furthermore, it clarified that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the consolidated financial statements of the Group but may impact future periods should the Group enter into any business combinations.

Amendments to IFRS 16: Covid-19 Related Rent Concessions

On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification. The amendment applies to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted. This amendment had no impact on the consolidated financial statements of the Group.

Conceptual Framework for Financial Reporting issued on 29 March 2018

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards. This will affect those entities which developed their accounting policies based on the Conceptual Framework. The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the consolidated financial statements of the Group.

2.5 New standards and interpretations not yet adopted

The standards and interpretations issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

Profit Rate Benchmark Reform (Phase 2)

On 27 August 2020 the International Accounting Standards Board (IASB or the Board) published 'Profit Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16' (IBOR reform Phase 2). IBOR reform Phase 2 provides temporary reliefs to address the accounting issues which arise upon the replacement of an Inter-Bank Offered Rate (an IBOR) with an alternative nearly risk-free profit rate (an RFR).

2. BASIS OF PREPARATION (CONTINUED)

2.5 New standards and interpretations not yet adopted (continued)

Profit Rate Benchmark Reform (Phase 2) (continued)
The impact of the replacement of interbank offered rates ('IBORs') with alternative risk-free rates on the Group's products and services remains a key area of focus. The Group has exposure to contracts referencing IBORs, such as Libor, extending past FY2021, when it is likely that these IBORs will cease being published. The Group is currently assessing the impact of the Group's transition to the new rate regimes after 2021 by considering changes in its products, services, systems and reporting and will continue to engage with internal and external stakeholders to support an orderly transition and to mitigate the risks resulting from the transition.

Amendments to IFRS 9: Fees in the 10 percent test for derecognition of financial liabilities
As part of its 2018-2020 Annual Improvements to IFRS standards process, the IASB issued an amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Group will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual period in which it will first apply the amendment and does not expect this will result in a material impact on Group's consolidated financial statements.

Amendments to IAS 1: Classification of Liabilities as Current or Non-current
In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

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

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Group is currently assessing the impact the amendments will have on current practice.

3 SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Basis of consolidation

The consolidated financial statements comprise the Bank and its principal operating subsidiaries (collectively "the Group") - Boubyan Takaful Insurance Company K.S.C (Closed) , Boubyan Capital Investment Company K.S.C (Closed) and BLME Holdings plc, as at 31 December 2020 and which are controlled by the Bank as set out in note 16.

3.1.1 Business combinations

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of consolidation (continued)

3.1.1 Business combinations (continued)

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

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

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

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

3.1.2 Non-controlling interests

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

3.1.3 Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by the Bank.

3.1.4 Loss of control

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Basis of consolidation (continued)

3.1.5 Investments in associates (equity-accounted investees)

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting rights.

Investments in associates are accounted for using the equity method and are recognised initially at cost. The cost of the investment includes transaction costs.

The Group recognises in the consolidated statement of profit or loss its share of the total recognised profit or loss of the associate from the date that significant influence effectively commences until the date that it effectively ceases. Distributions received from the associate reduce the carrying amount of the investments. Adjustments to the carrying amount may also be necessary for changes in Group's share in the associate arising from changes in the associate's equity and other comprehensive income. The Group's share of those changes is recognised directly in equity or in other comprehensive income as appropriate.

When the Group's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of the investment, including any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee. Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets and liabilities of the associate at the date of acquisition is recognized as goodwill within the carrying amount of the associates.

Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, after reassessment, is recognized immediately in the consolidated statement of profit or loss.

Unrealised gains arising from transactions with associates are eliminated against the investment to the extent of the Group's interest in the associate. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

3.1.6 Transactions eliminated on consolidation

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

3.2 Foreign currency

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

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

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

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

3.3 Revenue recognition

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Government grants

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

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

To mitigate the impact of the COVID-19 pandemic, the Government of Kuwait has introduced measures to aid private entities in response to the pandemic. These measures include government assistance made in respect of eligible staff costs in the private sector.

3.5 Financial instruments

3.5.1 Financial assets

a) Trade and settlement date accounting

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

b) Recognition and derecognition of financial assets

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (continued)

3.5.1 Financial assets (continued)

c) Classification and Measurement of Financial assets
The Group has determined the classification and measurement of its financial assets as follows:

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

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

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (continued)

3.5.1 Financial assets (continued)

c) Classification and Measurement of Financial assets (continued)

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

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

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

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

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

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

(i) Financial assets measured at amortised cost:
A financial asset is measured at amortised cost if it meets both of the following conditions:

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

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

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

(i) Debt Securities (Sukuk) at FVOCI
A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated at FVTPL:

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (continued)

3.5.1 Financial assets (continued)

c) Classification and Measurement of Financial assets (continued)
(ii) Financial assets measured at fair value through other comprehensive income (FVOCI) (continued):

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

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

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

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

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

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

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

Equity investments are not subject to Expected Credit Losses.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (continued)

3.5.1 Financial assets (continued)

d) Impairment of financial assets (continued)

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

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (continued)

3.5.1 Financial assets (continued)

d) Impairment of financial assets (continued)

Expected Credit Losses (continued)

Measurement of ECLs

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

Incorporation of forward-looking information

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

Modification of Islamic financing to customers

Under certain circumstances, the Group seeks to restructure Islamic financing to customers rather than taking possession of collateral. This may involve extending the payment arrangements, reduction in the amount of principal or profit and the agreement of new facility or financing conditions. If the modifications are substantial, such a facility is derecognised and a new facility is recognised with substantially different terms and conditions.

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

Write off

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

Presentation of allowance for ECL in the consolidated statement of financial position

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

Provision for credit losses in accordance with CBK instructions

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (continued)

3.5.1 Financial assets (continued)

d) Impairment of financial assets (continued)

Expected Credit Losses (continued)

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

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

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

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

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

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

3.5.2 Financial liabilities

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

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.
Financial liabilities comprise due to banks, depositors’ accounts and other liabilities.

Due to banks and depositors’ accounts

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

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

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

Saving Investment Accounts

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

Fixed-Term Deposit Investment Accounts

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

Open –Term Deposit Investment Accounts

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

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

Medium term financing

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (continued)

3.5.3 Offsetting

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

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

3.6 Fair values

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, in the most advantageous market to which the Group has access at that date.

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

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

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

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

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

3.7 Derivatives

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

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

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

3.8 Investment properties

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9 Property and equipment

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

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

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

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

• Furniture and leasehold improvement	5 years
• Office equipment and software	3 - 10 years
• Buildings on leasehold land	20 years
• Buildings on freehold land	50 years

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

3.10 Leases – Group as a lessee

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

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

a) Right-of-use assets

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

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

b) Lease liabilities

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

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

3.11 Impairment of non- financial assets

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.11 Impairment of non- financial assets (continued)

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

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

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

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

3.12 Provisions

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

3.13 Contingent liabilities and contingent assets

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

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

3.14 Share based payment

The Bank operates an equity settled share based compensation plan. The fair value of the employee services received in exchange for the grant of options or shares is recognized as an expense, together with a corresponding increase in equity. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options or shares on the date of grant using the Black Scholes model. At each reporting date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the consolidated statement of profit or loss, with a corresponding adjustment to equity.

3.15 Segment reporting

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

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

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

3.16 Treasury shares

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.16 Treasury shares (continued)

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

3.17 Post-employment benefits

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

3.18 Kuwait Foundation for the Advancement of Sciences (KFAS)

The Bank calculates the contribution to KFAS at 1% in accordance with the calculation based on the Foundation's Board of Directors resolution.

3.19 National Labour Support Tax (NLST)

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

3.20 Zakat

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

3.21 Financial guarantees

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

3.22 Fiduciary assets

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

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

4.1 Critical judgments in applying the Group's accounting policies

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

Fair value hierarchy

As disclosed in note 32.8, the Group is required to determine and disclose the level in the fair value hierarchy into which the fair value measurements are categorized in their entirety, segregating fair value measurements in accordance with the levels defined in IFRS. Differentiating between Level 2 and Level 3 fair value measurements, i.e., assessing whether inputs are observable and whether the unobservable inputs are significant, may require judgement and a careful analysis of the inputs used to measure fair value, including consideration of factors specific to the asset or liability.

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

4.1 Critical judgments in applying the Group's accounting policies (continued)

Classification of financial assets

The Group determines the classification of financial assets based on the assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and profit on the principal amount outstanding. Judgments are required in determining the business model at an appropriate level that best reflects an aggregated group or portfolio of assets which are managed together to achieve a particular business objective. The Group also applies judgment to assess if there is a change in business model in circumstances when the assets within that business model are realised differently than the original expectations. Refer to note 3.5 classification of financial assets for more information.

4.2 Key sources of estimation uncertainty

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

Expected Credit Losses on financial assets

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

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

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

Impairment losses on Islamic finance facilities

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

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

Valuation of unquoted equity investments

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

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

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

Fair values of asset and liabilities including intangibles

Considerable judgement by management is required in the estimation of the fair value of the assets including intangibles with definite and indefinite useful life, liabilities and contingent liabilities acquired as a result of business combination.

5. BUSINESS COMBINATION

In January 2020, the Group concluded the acquisition of an additional equity interest in BLME Holdings plc ("BLME") (previously classified as "investment in associate"), resulting in an increase in its effective ownership from **27.91%** to **71.08%**. The acquisition will enable the Group to provide its existing and future clients with additional Sharia compliant UK services offerings, particularly wealth management opportunities and deploying its digital capabilities in BLME's business. Having obtained control, the Group reclassified its investment in BLME from associate to subsidiary and consolidated the financial statements of BLME from 27 January 2020 ("date of acquisition").

As the business combination was achieved in stages, in accordance with IFRS 3: Business Combination, the Group re-measured its previously held equity interest in BLME at the acquisition date fair value.

In compliance with IFRS 3, "Business Combination", the Group has carried out one time 'Purchase Price Allocation (PPA)' exercise.

The fair values of assets acquired and liabilities assumed are summarized as follows:

	KD '000s
Assets	
Cash and balances with banks	**28,602**
Deposits with other banks	**3,031**
Islamic financing to customers	**538,037**
Investment in Sukuk	**33,269**
Other investment securities	**1,024**
Investments in associates	**484**
Other assets	**11,839**
Total assets	**616,286**
Liabilities	
Due to banks	**118,425**
Depositors' accounts	**395,881**
Other liabilities	**10,483**
Total liabilities	**524,789**
Net assets	**91,497**
Non-controlling interests	**(3,274)**
Fair value of net assets	**88,223**

Analysis of cash flows on acquisition	**KD 000's**
Cash and cash equivalents in subsidiary acquired	**28,602**
Less: Consideration paid	**(28,927)**
Cash outflow on acquisition	**(325)**

The consideration paid, non-controlling interest and fair value of previous held equity interest relating to the above business combination amounted to **KD 28,927 thousand**, **KD 25,516 thousand** and **KD 16,735 thousand** respectively. The PPA exercise resulted in a net gain of **KD 2,726 thousand**; net of loss of re-measurement of previously held equity interest in BLME of **KD 12,504 thousand** and transaction cost of **KD 1,815** thousand which is included under "Net investment income" in the consolidated statement of profit or loss.

The consolidated statement of profit or loss of the Group for the year ended 31 December 2020, includes operating income of **KD 13,710 thousand** and profit attributable to the equity holders of the Bank amounting to **KD 1,163 thousand** from BLME.

Had the business combinations taken place at the beginning of the year, revenue of the Group and profit attributable to equity holders of the Bank, would have not have been materially different.

6. MURABAHA AND OTHER ISLAMIC FINANCING INCOME

Islamic financing income includes financing income from Islamic financing to customers of **KD 208,576 thousand** (2019: KD 195,238 thousand) and income from Sukuk of **KD 14,488 thousand** (2019: KD 12,391 thousand).

7. NET INVESTMENT INCOME

	2020	2019
	KD'000s	KD'000s
Dividend income	**2,708**	2,405
Net rental income from investment properties	**1,653**	417
Net gain from financial assets at FVTPL	**612**	1,213
Net gain from sale of debt investments at FVOCI	**418**	169
Gain on deemed acquisition of an associate	**-**	982
Unrealized loss from changes in fair value of investment properties	**(1,553)**	(1,031)
Net gain on business combination (note 5)	**2,726**	-
Share of result of associates	**272**	2,040
	6,836	6,195

8. NET FEES AND COMMISSION INCOME

	2020	2019
	KD'000s	KD'000s
Gross fees and commission income	**21,950**	24,625
Fees and commission expenses	**(9,675)**	(8,197)
	12,275	16,428

9. PROVISION FOR IMPAIRMENT

	2020	2019
	KD'000s	KD'000s
Provision for impairment of Islamic financing to customers	**57,427**	17,432
ECL – Other financial assets	**749**	716
Impairment loss on other assets	**839**	563
	59,015	18,711

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

	Specific	General	Total
	KD'000s	KD'000s	KD'000s
Balance at 1 January 2019	18,325	52,892	71,217
Provided during the year	13,589	3,843	17,432
Recovery of written off balances	1,287	-	1,287
Written off balances during the year	(20,725)	-	(20,725)
Balance at 31 December 2019	12,476	56,735	69,211
Provision upon acquisition of subsidiary	**5,100**	**6,372**	**11,472**
(Release) / provided during the year	**(5,689)**	**63,116**	**57,427**
Recovery of written off balances	**6,678**	**-**	**6,678**
Written off balances during the year	**(15,273)**	**-**	**(15,273)**
Foreign currency differences	**244**	**141**	**385**
Balance at 31 December 2020	**3,536**	**126,364**	**129,900**

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

	Islamic finance to customers	Non-cash facilities	Total
	KD'000s	KD'000s	KD'000s
Balance at 1 January 2019	68,487	2,730	71,217
Provided during the year	16,775	657	17,432
Recovery of written off balances	1,287	-	1,287
Written off balances during the year	(19,928)	(797)	(20,725)
Balance at 31 December 2019	66,621	2,590	69,211
Provision upon acquisition of subsidiary	**11,472**	**-**	**11,472**
Provided during the year	**57,280**	**147**	**57,427**
Recovery of written off balances	**6,678**	**-**	**6,678**
Written off balances during the year	**(15,273)**	**-**	**(15,273)**
Foreign currency differences	**385**	**-**	**385**
Balance at 31 December 2020	**127,163**	**2,737**	**129,900**

9. PROVISION FOR IMPAIRMENT (continued)

At 31 December 2020, non-performing finance facilities amounted to **KD 52,071 thousand**, net of provision of **KD 3,536 thousand** (2019: KD 20,409 thousand, net of provision of KD 12,476 thousand). The analysis of specific and general provision stated above is based on Central Bank of Kuwait's instructions.

10. TAXATION

	2020	2019
	KD'000s	KD'000s
Contribution to Kuwait Foundation for the Advancement of Sciences ("KFAS")	**330**	591
Other taxes	**(257)**	2,276
	73	2,867

11. BASIC AND DILUTED EARNING PER SHARE

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

Diluted earnings per share is calculated by dividing the net profit for the year attributable to the equity holders of the Bank by the weighted average number of shares outstanding during the year plus the weighted average number of share that would be issued on the conversion of all the dilutive potential shares into shares. The diluted earnings per share arising from the issue of employee share option does not result in any change from the reported basic earnings per share.

	2020	2019
Net profit for the year attributable to the equity holders of the Bank (KD'000s)	**34,421**	62,647
Less: profit payment on Perpetual Tier 1 Sukuk (KD'000s)	**(5,186)**	(5,125)
	29,235	57,522
Weighted average number of shares outstanding during the year (thousands of shares)	**3,027,926**	2,963,910
Basic and diluted earnings per share attributable to the equity holders of the Bank (fils)	**9.66**	19.41

Earnings per share for the year ended 2019 was 20.40 fils per share before retroactive adjustment to the number of shares following the bonus issue (see note 24).

12. CASH AND CASH EQUIVALENTS

	2020	2019
	KD'000s	KD'000s
Cash and balances with banks	**286,718**	232,393
Placement with banks maturing within seven days	**300,482**	277,344
	587,200	509,737

13. DEPOSITS WITH OTHER BANKS

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

	2020	2019
	KD'000s	KD'000s
Kuwait & Middle East	**140,672**	264,630
Europe & UK	**39,518**	65,516
	180,190	330,146
Less: Expected credit losses (ECL)	**(98)**	(100)
	180,092	330,046

14. ISLAMIC FINANCING TO CUSTOMERS

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

	Kuwait & Middle East	North America & Africa	Europe & UK	Total
	KD'000s	KD'000s	KD'000s	KD'000s
2020				
Corporate banking	**2,535,367**	**14,755**	**515,376**	**3,065,498**
Consumer banking	**1,884,931**	**-**	**-**	**1,884,931**
	4,420,298	**14,755**	**515,376**	**4,950,429**
Less: provision for impairment	**(114,773)**	**(148)**	**(12,242)**	**(127,163)**
	4,305,525	**14,607**	**503,134**	**4,823,266**
2019				
Corporate banking	2,234,876	7,654	-	2,242,530
Consumer banking	1,650,164	-	-	1,650,164
	3,885,040	7,654	-	3,892,694
Less: provision for impairment	(66,544)	(77)	-	(66,621)
	3,818,496	7,577	-	3,826,073

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

	Specific		General		Total	
	2020	2019	**2020**	2019	**2020**	2019
	KD'000s	KD'000s	**KD'000s**	KD'000s	**KD'000s**	KD'000s
Balance at beginning of the year	**12,147**	17,781	**54,474**	50,706	**66,621**	68,487
(Release) / provided during the year	**(5,680)**	13,007	**62,960**	3,768	**57,280**	16,775
Provision upon acquisition of subsidiary	**5,100**	-	**6,372**	**-**	**11,472**	-
Recovery of written off balances	**6,678**	1,287	**-**	**-**	**6,678**	1,287
Written off balances during the year	**(15,273)**	(19,928)	**-**	**-**	**(15,273)**	(19,928)
Foreign currency differences	**244**	-	**141**	**-**	**385**	-
Balance at end of the year	**3,216**	12,147	**123,947**	54,474	**127,163**	66,621

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

	Corporate banking		Consumer banking		Total	
	2020	2019	**2020**	2019	**2020**	2019
	KD'000s	KD'000s	**KD'000s**	KD'000s	**KD'000s**	KD'000s
Balance at beginning of the year	**8,785**	7,576	**3,362**	10,205	**12,147**	17,781
(Release) / provided during the year	**(8,253)**	9,034	**2,573**	3,973	**(5,680)**	13,007
Provision upon acquisition of subsidiary	**5,100**	-	**-**	-	**5,100**	-
Recovery of written off balances	**4,842**	345	**1,836**	942	**6,678**	1,287
Written off balances during the year	**(9,126)**	(8,170)	**(6,147)**	(11,758)	**(15,273)**	(19,928)
Foreign currency differences	**244**	-	**-**	-	**244**	-
Balance at end of the year	**1,592**	8,785	**1,624**	3,362	**3,216**	12,147

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

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

	2020	2019
	KD'000s	KD'000s
Islamic financing to customers	**55,607**	32,885
Specific provision for impairment	**(3,536)**	(12,476)
	52,071	20,409

At 31 December 2020, management estimates the fair value of collaterals held against individually impaired Islamic finance facilities to be **KD 89,357 thousand** (2019: KD 24,544 thousand).

The ECL for Islamic financing as at 31 December 2020 is **KD 62,255 thousand** (2019: KD 53,981 thousand) which is lower than the provision for impairment of Islamic finance to customers required by CBK.

15. INVESTMENT SECURITIES

	2020 KD'000s	2019 KD'000s
Investment in Sukuks	**523,046**	306,315
Financial assets at fair value through profit or loss	**81,691**	80,440
Financial assets at fair value through other comprehensive income	**17,418**	20,775
	622,155	407,530

	2020 KD'000s	2019 KD'000s
Investment in Sukuks		
Investment in Sukuk- FVOCI	**504,218**	306,315
Investment in Sukuk- FVTPL	**18,828**	-
	523,046	306,315

	2020 KD'000s	2019 KD'000s
Financial assets at fair value through profit or loss		
Investment in unquoted equity funds	**81,691**	80,440
	81,691	80,440

	2020 KD'000s	2019 KD'000s
Financial assets at fair value through other comprehensive income		
Investment in unquoted equity securities	**17,275**	20,624
Investment in quoted equity securities	**143**	151
	17,418	20,775

16. SUBSIDIARIES

16.1 Details of principal operating subsidiaries are as follows:

Name of subsidiary	Country of incorporation	Principal activity	2020	2019
			% Effective ownership	
Boubyan Takaful Insurance Company K.S.C. (Closed)	Kuwait	Takaful insurance	**79.49**	79.49
Boubyan Capital Investment Company K.S.C. (Closed)	Kuwait	Islamic investments	**99.95**	99.95
BLME Holdings Plc, ("BLME") (note 5).	United Kingdom	Islamic Banking	**71.08**	-

16.2 Material partly-owned subsidiary

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

Proportion of equity interest held by non-controlling interests:

Name of subsidiary	Country of incorporation	Principal activity	2020	2019
			% Effective ownership	
BLME Holdings Plc, ("BLME")	United Kingdom	Islamic Banking	**28.92**	-

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

16. SUBSIDIARIES (continued)

16.2 Material partly-owned subsidiary

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

	2020 KD 000's
Revenues	13,710
Expenses	(11,939)
Profit for the year	1,771
Total comprehensive income	1,719
Attributable to non-controlling interest:	
Profit for the year	608
Other comprehensive income	497
	1,105

Summarised consolidated statement of financial position as at:

	2020 KD 000's
Total assets	708,141
Total liabilities	600,989
Total equity	**107,152**
Attributable to:	
Equity holders of the Bank	73,639
Non-controlling interest	33,513
	107,152

Summarised consolidated statement of cash flows for year ended:

	2020 KD 000's
Net cash generated from operating activities	38,223
Net cash generated from investing activities	11,653
Net cash generated from financing activities	2,560
Net increase in cash and cash equivalents	**52,436**

17. INVESTMENTS IN ASSOCIATES

Name of associate	Country of incorporation	Principal activity	**2020**	2019
			% Effective ownership	
BLME Holdings Plc, ("BLME") (note 5 and 16.1)	United Kingdom	Islamic Banking	-	27.91
United Capital Bank	Republic of Sudan	Islamic Banking	21.67	21.67
Saudi Projects Holding Group	Kuwait	Real Estate	25.02	25.02

18. INVESTMENT PROPERTIES

The movement in the investment properties is as follows:

	2020	2019
	KD'000s	KD'000s
Balance at the beginning of the year	**46,555**	24,036
Additions during the year	**1,773**	27,342
Disposals during the year	**-**	(3,659)
Net unrealized loss from change in fair value of investment properties	**(1,553)**	(1,031)
Foreign currency translation adjustments	**358**	(133)
Balance at the ending of the year	**47,133**	46,555

The fair values were determined based on market approach. There has been no change to the valuation techniques during the year. All of the Group's investment properties are included in Level 2 of fair value hierarchy as at 31 December 2020.

19. OTHER ASSETS

	2020	2019
	KD'000s	KD'000s
Accrued income	**4,360**	3,096
Prepayments	**3,934**	3,196
Others	**37,125**	26,130
	45,419	32,422

20. MEDIUM TERM FINANCING

	2020	2019
	KD'000s	KD'000s
Global Medium Term Sukuk ("GMTN programme")*	**229,713**	-
Other medium term financing	**75,796**	-
	305,509	-

* During 2019, the Bank established a USD 1 billion Global Medium Term Sukuk programme ("GMTN programme"). On 18 February 2020, the Bank issued senior unsecured Sukuk amounting to **USD 750** million due in February 2025 under the GMTN programmed through a wholly owned special purpose vehicle. These Sukuk were issued at 100 per cent of nominal value and carry a fixed profit rate at **2.593%** per annum payable semi-annually in arrears.

21. OTHER LIABILITIES

	2020	2019
	KD'000s	KD'000s
Creditors and accruals	**26,741**	13,679
Accrued staff benefits	**9,174**	9,141
Post-Employment Benefit	**13,320**	8,970
Provision on non-cash facilities (note 9)	**2,737**	2,590
Others	**63,839**	29,281
	115,811	63,661

Post-Employment Benefit

The present value of defined benefit obligation and the related current and past service cost was determined by actuarial valuations using the projected unit credit method. The significant inputs used in the actuarial valuation were a discount rate of 4% (2019: 5%), future salary increases in line with expected consumer price inflation and demographic assumptions of mortality, withdrawal, retirement and disability rates.

22. SHARE CAPITAL

	2020		2019	
	Shares	**KD'000s**	Shares	KD'000s
Shares authorised, issued and fully paid in cash and bonus shares.	**3,028,283,433**	**302,827**	2,884,079,460	288,407

23. SHARE PREMIUM

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

24. DIVIDEND

The Annual General Assembly meeting of the shareholders held on 8 March 2020 approved 5% bonus shares (2018: 5%) and a cash dividend of 9 fils per share (2018: 8 fils per share) for the year ended 31 December 2019. The bonus shares increased the number of issued and fully paid up shares by **144,203,973** shares (2018: 119,423,580 shares) and increase in share capital by KD **14,420** thousand (2018: KD 11,942 thousand).

The board of directors recommended distribution of bonus share of **5%** for the year ended 31 December 2020. The proposed dividends, if approved by the shareholders' general assembly, shall be payable to the shareholders after obtaining the necessary regulatory approvals.

25. TREASURY SHARES

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

	2020	2019
Number of treasury shares	**368,687**	331,112
Treasury shares as a percentage of total issued shares - %	**0.01218%**	0.01148%
Cost of treasury shares (KD'000s)	**54**	54
Market value of treasury shares (KD'000s)	**210**	212
Weighted average of market value per share (fils)	**0.569**	0.578

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

26. STATUTORY RESERVE

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

27. OTHER RESERVES

	Share based payment reserve	**Fair value reserve**	**Foreign currency translation reserve**	**Change in actuarial valuation reserve**	**Total**
	KD'000s	**KD'000s**	**KD'000s**	**KD'000s**	**KD'000s**
Balance at 1 January 2020	**967**	**167**	**(9,488)**	**-**	**(8,354)**
Other comprehensive loss	**-**	**(8,530)**	**(1,015)**	**(3,092)**	**(12,637)**
Total comprehensive loss for the year	**-**	**(8,530)**	**(1,015)**	**(3,092)**	**(12,637)**
Transfer of share based payment reserve	**(967)**	**-**	**-**	**-**	**(967)**
Balance at 31 December 2020	**-**	**(8,363)**	**(10,503)**	**(3,092)**	**(21,958)**

27. OTHER RESERVES (continued)

	Share based payment reserve	Fair value reserve	Foreign currency translation reserve	Change in actuarial valuation reserve	Total
	KD'000s	KD'000s	KD'000s	KD'000s	KD'000s
Balance at 1 January 2019	1,381	3,543	(9,917)	-	(4,993)
Other comprehensive loss	-	(3,372)	429	-	(2,943)
Total comprehensive loss for the year	-	(3,372)	429	-	(2,943)
Transfer of gain on disposal of equity investments at FVOCI to retained earnings	-	(4)	-	-	(4)
Sale of treasury shares	(414)	-	-	-	(414)
Balance at 31 December 2019	967	167	(9,488)	-	(8,354)

Voluntary reserve

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

Voluntary reserve is available to be distributed to shareholders at the discretion of the general assembly in ways that may be deemed beneficial to the Bank, except for the amount equivalent to the cost of purchase of the treasury shares (note 25).

28. PERPETUAL TIER 1 SUKUK

During 2016, the Bank, issued "Tier 1 Sukuk", through a Sharia's compliant Sukuk arrangement amounting to USD 250 million. Tier 1 Sukuk is a perpetual security in respect of which there is no fixed redemption date and constitutes direct, unsecured, subordinated obligations (senior only to share capital) of the Bank subject to the terms and conditions of the Mudaraba Agreement. The 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.

The net proceeds of Tier 1 Sukuk are invested by way of Mudaraba with the Bank (as Mudareb) on an unrestricted co-mingling basis, by the Bank in its general business activities carried out through the general Mudaraba pool. Tier 1 Sukuk 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.

29. RELATED PARTY TRANSACTIONS

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

	Number of board member or executive officers		Number of related parties			
	2020	2019	**2020**	2019	**2020**	2019
					KD'000s	KD'000s
Islamic financing to customers	**7**	7	**-**	1	**212**	14,469
Depositors' accounts	**4**	5	**17**	12	**7,407**	3,801
Letters of guarantee and letters of credit	**1**	-	**2**	-	**370**	-
Murabaha and other Islamic financing income					**14**	459
Finance cost and distribution to depositors					**(2)**	(98)
Parent Company						
Due from banks					**96,508**	181,080
Due to banks					**104,567**	5,735
Depositors accounts					**611**	-
Murabaha and other Islamic financing income					**1,842**	1,405
Finance cost and distribution to depositors					**(2,272)**	(1,170)

29. RELATED PARTY TRANSACTIONS

The Group holds collaterals against Islamic finance facilities to related parties in the form of shares and real estate. An estimate of the fair value of collaterals held against Islamic finance facilities to related parties amounted to **KD 80 thousand** as at 31 December 2020 (2019: KD 5,500 thousand).

Compensation of key management personnel:

Details of compensation for key management comprise the following:

	2020	2019
	KD'000s	KD'000s
Short-term benefits	**2,669**	2,965
Post-employment benefits	**435**	413
Differed compensation	**664**	611
	3,768	3,989

30. CONTINGENCIES AND COMMITMENTS

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

	2020	2019
	KD'000s	KD'000s
Guarantees	**287,185**	271,839
Acceptances and letters of credit	**104,549**	90,184
Other commitments	**119,206**	95,121
	510,940	457,144

31. 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 and International operations**	**Treasury**	**Group centre**	**Total**
2020	**KD'000s**	**KD'000s**	**KD'000s**	**KD'000s**	**KD'000s**	**KD'000s**
Net financing income	**78,488**	**41,967**	**6,344**	**5,322**	**6,768**	**138,889**
Operating income	**84,194**	**46,377**	**17,898**	**10,480**	**8,533**	**167,482**
Net profit/(loss) for the year	**49,783**	**51,898**	**798**	**9,830**	**(78,762)**	**33,547**
Total assets	**1,883,992**	**2,981,778**	**877,404**	**660,504**	**33,471**	**6,437,149**
Total liabilities	**2,792,244**	**581,432**	**705,176**	**1,431,374**	**300,193**	**5,810,419**
2019						
Net financing income	67,590	35,542	(3,543)	5,859	14,011	119,459
Operating income	74,551	43,929	9,609	9,533	8,147	145,769
Net profit/(loss) for the year	36,261	28,080	5,059	8,943	(15,666)	62,677
Total assets	1,652,215	2,562,670	217,281	825,652	42,730	5,300,548
Total liabilities	2,337,346	364,021	62,495	1,873,566	9,939	4,647,367

31. SEGMENT REPORTING (continued)

Geographical segment

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

	Middle East & North Africa	North America	Europe & UK	Asia	Total
	KD'000s	KD'000s	KD'000s	KD'000s	KD'000s
2020					
Assets	**5,696,066**	**75,849**	**545,023**	**120,211**	**6,437,149**
Non-current assets (excluding financial instruments)	**149,314**	**25,594**	**12,381**	**695**	**187,984**
Liabilities and equity	**5,899,459**	**13,171**	**522,264**	**2,255**	**6,437,149**
Segment income	**166,902**	**2,602**	**(1,566)**	**(456)**	**167,482**
2019					
Assets	5,091,745	45,550	130,057	33,196	5,300,548
Non-current assets (excluding financial instruments)	138,367	26,208	4,180	29,595	198,350
Liabilities and equity	5,299,350	-	1,188	10	5,300,548
Segment income	141,299	209	4,257	4	145,769

32. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

32.1 Introduction and overview

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

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

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

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

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

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

32.2 Credit risk

32.2.1 Assessment of expected credit losses

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

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

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

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

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

32. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

32.2 Credit risk *(continued)*

32.2.1 Assessment of expected credit losses *(continued)*

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

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

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

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

The Group has also 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 year ended 31 December 2020.

Significant increase in credit risk

The Group continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12 months ECL or life time ECL, the Group assess whether there has been a significant increase in credit risk since initial recognition including assessment of impairment factors in the light of the Covid-19 situation such as whether financial difficulties of the borrowers are temporary or long-term and the industry sectors in which the borrowers operate. The quantitative criteria used to determine a significant increase in credit risk is a series of relative and absolute thresholds which are subjected to bank's internal policies and regulatory thresholds.

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

Measurement of ECLs

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

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

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

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

32. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

32.2 Credit risk (continued)

32.2.1 Assessment of expected credit losses (continued)

Incorporation of forward-looking information

The Group considers key economic variables including the continuing uncertainties and impact stemming from Covid-19, that are expected to have an impact on the credit risk and the ECL in order to incorporate forward looking information into the ECL models. These primarily reflect reasonable and supportable forecasts of the future macro-economic conditions which have been revised in light of Covid-19. The consideration of such factors increases the degree of judgment in determination of ECL. The Group employs statistical models (GCorr macro model) to incorporate macro-economic factors on historical default rates. The Group considers 3 scenarios (baseline, upside and downside) of forecasts of macro-economic data separately for each geographical segments and appropriate probability weights are applied to these scenarios to derive a probability weighted outcome of expected credit loss. The management reviews the methodologies and assumptions including any forecasts of future economic conditions on a regular basis.

Internal rating and PD estimation process

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

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

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

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

Exposure at default

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

32. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

32.2 Credit risk (continued)

Loss given default

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

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

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

	2020		2019	
	Gross exposure	**Net exposure**	Gross exposure	Net exposure
	KD'000's	**KD'000's**	KD'000's	KD'000's
Islamic financing to customers	**4,823,266**	**3,477,302**	3,826,073	2,604,646
Contingent liabilities and capital commitments	**510,940**	**502,012**	457,144	447,228

Collateral and other credit enhancements

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

32.2.3 Risk Concentration of the maximum exposure to credit risk

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

Credit risk can also arise due to a significant concentration of Group's assets to any single counterparty. This risk is managed by diversification of the portfolio. The 20 largest facilities outstanding as a percentage of gross facilities as at 31 December 2020 are **21.47 %** (2019: 24.19%).

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

	Middle East & North Africa	**North America**	**Europe & UK**	**Asia**	**Total**
	KD'000's	**KD'000's**	**KD'000's**	**KD'000's**	**KD'000's**
2020					
Balances with banks	**103,918**	**55,479**	**89,986**	**47**	**249,430**
Deposits with Central Bank of Kuwait	**336,934**	**-**	**-**	**-**	**336,934**
Deposits with other banks	**140,988**	**13,966**	**25,138**	**-**	**180,092**
Islamic financing to customers	**4,313,921**	**6,211**	**503,134**	**-**	**4,823,266**
Investment in Sukuk	**403,236**	**-**	**-**	**119,810**	**523,046**
Other assets (excluding accrued income and prepayments)	**33,676**	**-**	**3,449**	**-**	**37,125**
	5,332,673	**75,656**	**621,707**	**119,857**	**6,149,893**
Contingent liabilities	**388,525**	**-**	**1,163**	**2,046**	**391,734**
Commitments	**100,115**	**-**	**19,091**	**-**	**119,206**
Total credit risk exposure	**5,821,313**	**75,656**	**641,961**	**121,903**	**6,660,833**

32. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

32.2 **Credit risk (continued)**

32.2.3 Risk Concentration of the maximum exposure to credit risk (continued)

	Middle East & North Africa	North America	Europe & UK	Asia	Total
	KD'000's	KD'000's	KD'000's	KD'000's	KD'000's
2019					
Balances with banks	168,932	22,123	2,218	181	193,454
Deposits with Central Bank of Kuwait	306,156	-	-	-	306,156
Deposits with other banks	264,530	-	65,516	-	330,046
Islamic financing to customers	3,826,073	-	-	-	3,826,073
Investment in Sukuk	280,386	-	-	25,929	306,315
Other assets (excluding accrued income and prepayments)	26,130	-	-	-	26,130
	4,872,207	22,123	67,734	26,110	4,988,174
Contingent liabilities	356,089	-	1,090	4,844	362,023
Commitments	95,122	-	-	-	95,122
Total credit risk exposure	5,323,418	22,123	68,824	30,954	5,445,319

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

	2020	2019
	KD'000's	KD'000's
Trading	**137,307**	113,502
Manufacturing	**203,742**	210,831
Banking and other financial institutions	**872,083**	699,339
Construction	**237,475**	66,439
Real Estate	**1,369,592**	1,011,541
Retail	**1,782,704**	1,565,183
Government	**717,669**	615,021
Others	**829,321**	706,318
	6,149,893	4,988,174

32.2.4 Credit quality per class of financial assets

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

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

	Neither past due nor impaired			
	High	**Standard**	**Past due or impaired**	**Total**
	KD'000's	**KD'000's**	**KD'000's**	**KD'000's**
2020				
Balances with banks	**249,430**	**-**	**-**	**249,430**
Deposits with Central Bank of Kuwait	**336,934**	**-**	**-**	**336,934**
Deposits with other banks	**180,092**	**-**	**-**	**180,092**
Islamic financing to customers	**4,468,650**	**357,521**	**124,258**	**4,950,429**
Investment in Sukuk	**523,046**	**-**	**-**	**523,046**
Other assets (excluding accrued income and prepayment)	**37,125**	**-**	**-**	**37,125**
	5,795,277	**357,521**	**124,258**	**6,277,056**

32. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

32.2 Credit risk (continued)

32.2.4 Credit quality per class of financial assets (continued)

	Neither past due nor impaired		Past due or	
	High	Standard	impaired	Total
	KD'000's	KD'000's	KD'000's	KD'000's
2019				
Balances with banks	193,454	-	-	193,454
Deposits with Central Bank of Kuwait	306,156	-	-	306,156
Deposits with other banks	330,046	-	-	330,046
Islamic financing to customers	3,554,394	263,911	74,389	3,892,694
Investment in Sukuk	306,315	-	-	306,315
Other assets (excluding accrued income and prepayment)	26,130	-	-	26,130
	4,716,495	263,911	74,389	5,054,795

Ageing analysis of past due or impaired financial assets:

	Corporate banking		**Consumer banking**		**Total**	
	Past due and not impaired	**Past due and impaired**	**Past due and not impaired**	**Past due and impaired**	**Past due and not impaired**	**Past due and impaired**
	KD'000's	**KD'000's**	**KD'000's**	**KD'000's**	**KD'000's**	**KD'000's**
2020						
Up to 30 days	**49,087**	**282**	**10,053**	**538**	**59,140**	**820**
31 – 60 days	**295**	**-**	**4,135**	**43**	**4,430**	**43**
61 – 90 days	**287**	**79**	**4,794**	**24**	**5,081**	**103**
91 – 180 days	**-**	**5,675**	**-**	**112**	**-**	**5,787**
More than 180 days	**-**	**45,404**	**-**	**3,450**	**-**	**48,854**
	49,669	**51,440**	**18,982**	**4,167**	**68,651**	**55,607**
2019						
Up to 30 days	6,039	22,809	14,230	13	20,269	22,822
31 – 60 days	9,621	-	4,738	-	14,359	-
61 – 90 days	3,455	-	3,420	2	6,875	2
91 – 180 days	-	1	-	5,378	-	5,379
More than 180 days	-	868	-	3,815	-	4,683
	19,115	23,678	22,388	9,208	41,503	32,886

At 31 December 2020 management estimates the fair value of collaterals held against individually past due or impaired Islamic finance facilities to KD **90,961 thousand** (2019: KD 32,417 thousand).

32.3 Market risk

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

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

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

32. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

32.4 Foreign currency risk

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

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

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

		2020		2019	
		Effect on profit	**Effect on equity**	Effect on profit	Effect on equity
		KD'000's	**KD'000's**	KD'000's	KD'000's
US Dollar	+5	**(289)**	**-**	2,499	-
Sterling Pound	+5	**4**	**-**	(150)	-
Euro	+5	**26**	**-**	20	-
Indonesian Rupiah	+5	**-**	**-**	-	265
Sudanese Pound	+5	**11**	**104**	16	91
Japanese Yen	+5	**2**	**-**	3	-
Others	+5	**(22)**	**-**	(2)	-

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

Equity price risk

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

For such investments classified as FVOCI, a five percent increase in stock prices as at 31 December 2020 would have increased equity by **KD 871 thousand** (2019: an increase of KD 1,039 thousand). An equal change in the opposite direction would have had equal, but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

32.5 Liquidity risk

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

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

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

32. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

32.5 Liquidity risk

	Up to three months KD'000's	3 to 6 months KD'000's	6 to one year KD'000's	Over 1 year KD'000's	Total KD'000's
2020					
Assets					
Cash and balances with banks	**286,718**	**-**	**-**	**-**	**286,718**
Deposits with Central Bank of Kuwait	**279,763**	**51,120**	**6,051**	**-**	**336,934**
Deposits with Banks	**180,092**	**-**	**-**	**-**	**180,092**
Islamic financing to customers	**1,701,849**	**388,644**	**403,224**	**2,329,549**	**4,823,266**
Investment in Sukuk	**118,361**	**21,526**	**6,100**	**377,059**	**523,046**
Other investment securities	**-**	**-**	**-**	**99,109**	**99,109**
Investments in associates	**-**	**-**	**-**	**4,073**	**4,073**
Investment properties	**-**	**-**	**-**	**47,133**	**47,133**
Other assets	**15,056**	**-**	**6,163**	**24,200**	**45,419**
Property and equipment	**-**	**-**	**-**	**91,359**	**91,359**
Total assets	**2,581,839**	**461,290**	**421,538**	**2,972,482**	**6,437,149**
Liabilities and Equity					
Due to banks	**281,371**	**-**	**-**	**-**	**281,371**
Depositors' accounts	**3,801,305**	**542,705**	**465,843**	**297,875**	**5,107,728**
Medium term financing	**-**	**-**	**-**	**305,509**	**305,509**
Other liabilities	**24,228**	**-**	**28,618**	**62,965**	**115,811**
Equity	**-**	**-**	**-**	**626,730**	**626,730**
Total liabilities and equity	**4,106,904**	**542,705**	**494,461**	**1,293,079**	**6,437,149**

	Up to three months KD'000's	3 to 6 months KD'000's	6 to one year KD'000's	Over 1 year KD'000's	Total KD'000's
2019					
Assets					
Cash and balances with banks	232,393	-	-	-	232,393
Deposits with Central Bank of Kuwait	226,726	63,293	16,137	-	306,156
Deposits with Banks	224,966	48,510	56,570	-	330,046
Islamic financing to customers	1,100,860	826,597	241,104	1,657,512	3,826,073
Investment in Sukuk	250,630	-	-	55,685	306,315
Other investment securities	-	-	-	101,215	101,215
Investments in associates	-	-	-	33,144	33,144
Investment properties	-	-	-	46,555	46,555
Other assets	26,131	-	6,291	-	32,422
Property and equipment	-	-	-	86,229	86,229
Total assets	2,061,706	938,400	320,102	1,980,340	5,300,548
Liabilities and Equity					
Due to banks	219,372	7,078	10,030	-	236,480
Depositors' accounts	3,135,604	542,904	518,387	150,331	4,347,226
Other liabilities	29,281	-	13,679	20,701	63,661
Equity	-	-	-	653,181	653,181
Total liabilities and equity	3,384,257	549,982	542,096	824,213	5,300,548

32. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

32.5 Liquidity risk (continued)

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

	Up to three months	**3 to 6 months**	**6 to one year**	**Over 1 year**	**Total**
	KD'000's	**KD'000's**	**KD'000's**	**KD'000's**	**KD'000's**
2020					
Financial liabilities					
Due to banks	**281,775**	**-**	**-**	**-**	**281,775**
Depositors' accounts	**3,805,595**	**545,551**	**468,293**	**305,930**	**5,125,369**
Medium term financing	**1,836**	**3,325**	**3,672**	**325,658**	**334,491**
	4,089,206	**548,876**	**471,965**	**631,588**	**5,741,635**
Contingent liabilities and capital commitments					
Contingent liabilities	**164,078**	**57,019**	**90,394**	**80,243**	**391,734**
Other commitments	**-**	**4,146**	**6,613**	**108,447**	**119,206**
	164,078	**61,165**	**97,007**	**188,690**	**510,940**

	Up to three months	3 to 6 months	6 to one year	Over 1 year	Total
	KD'000's	KD'000's	KD'000's	KD'000's	KD'000's
2019					
Financial liabilities					
Due to banks	219,572	7,124	10,225	-	236,921
Depositors' accounts	3,141,215	549,621	531,221	168,612	4,390,669
	3,360,787	556,745	541,446	168,612	4,627,590
Contingent liabilities and capital commitments					
Contingent liabilities	130,862	47,481	88,304	95,376	362,023
Other commitments	-	-	2,032	93,090	95,122
	130,862	47,481	90,336	188,466	457,145

32.6 Profit Rate Risk

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

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

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

32.7 Operational risk

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

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

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

32. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

32.8 Fair value of financial instruments

Fair values are obtained from quoted market prices, discounted cash flow models and other models as appropriate. The carrying values of financial instruments are approximate to their fair values as at 31 December 2020 due to relatively short-term maturity of the instruments.

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

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

Fair value hierarchy

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

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

	Level 1	**Level 2**	**Level 3**	**Total**
2020	**KD'000's**	**KD'000's**	**KD'000's**	**KD'000's**
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**
2019				
Financial assets at fair value through profit or loss	-	80,440	-	80,440
Investment in Sukuk	306,315	-	-	306,315
Financial assets at fair value through other comprehensive income	151	-	20,624	20,775
	306,466	80,440	20,624	407,530

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

	At 1 January 2020	**Change in fair value**	**Additions/ transfers**	**Sale/ redemption**	**Exchange rate movements**	**At 31 December 2020**
	KD'000's	**KD'000's**	**KD'000's**	**KD'000's**	**KD'000's**	**KD'000's**
2020						
Assets measured at fair value						
Financial assets at fair value through other comprehensive income	**20,624**	**(5,104)**	**114**	**-**	**(226)**	**15,408**
	20,624	**(5,104)**	**114**	**-**	**(226)**	**15,408**

	At 1 January 2019	Change in fair value	Additions/ transfers	Sale/ redemption	Exchange rate movements	At 31 December 2019
	KD'000's	KD'000's	KD'000's	KD'000's	KD'000's	KD'000's
2019						
Assets measured at fair value						
Financial assets at fair value through other comprehensive income	30,574	(10,320)	-	(124)	494	20,624
	30,574	(10,320)	-	(124)	494	20,624

32. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

32.8 Fair value of financial instruments (continued)

Fair value hierarchy (continued)

The significant unobservable inputs used in the fair value measurement categorised within Level 3 of the fair value hierarchy together with a quantitative sensitivity analysis as at 31 December 2020 are not material.

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

32.9 Capital management

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

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

The Group's regulatory capital and capital adequacy ratios for the years ended 31 December 2020 and 31 December 2019 are calculated in accordance with Central Bank of Kuwait circular numbers 2/RB, RBA/336/2014 dated 24 June 2014 and 2/BS/IBS/454/2020 dated 02 April 2020 related to Basel III regulations which are shown below:

	2020	2019
	KD'000's	KD'000's
Risk weighted assets	**4,083,632**	3,246,032
Capital required	**551,290**	421,984
Capital available		
Common Equity Tier 1 Capital	**558,460**	546,790
Additional Tier 1 Capital	**78,015**	75,616
Tier 1 Capital	**636,475**	622,406
Tier 2 Capital	**51,864**	37,288
Total Capital	**688,339**	659,694
Common Equity Tier 1 Capital Adequacy Ratio	**13.68%**	16.84%
Tier 1 Capital Adequacy Ratio	**15.59%**	19.17%
Total Capital Adequacy Ratio	**16.86%**	20.32%

The Group's financial leverage ratio for the year ended 31 December 2020 is calculated in accordance with Central Bank of Kuwait circular number 2/RBA/ 343/2014 dated 21 October 2014 and is shown below:

	2020	2019
	KD'000's	KD'000's
Tier 1 Capital	**636,475**	622,406
Total Exposures	**6,794,257**	5,575,567
Financial Leverage Ratio	**9.37%**	11.16%

The disclosures relating to the capital adequacy regulations issued by Central Bank of Kuwait as stipulated in Central Bank of Kuwait's circular number 2/RB, RBA/336/2014 dated 24 June 2014 and disclosures related to financial leverage ratio as stipulated in Central Bank of Kuwait's circular number 2/RBA/ 343/2014 dated 21 October 2014 for the year ended 31 December 2020 are included under the 'Risk Management' section of the annual report.

33. DERIVATIVES

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

Currency swaps

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

Profit rate swaps

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

Forward foreign exchange contracts

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

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

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

	2020			2019		
	Positive fair value	**Negative fair value**	**Notional**	Positive fair value	Negative fair value	Notional
	KD'000s	**KD'000s**	**KD'000s**	KD'000s	KD'000s	KD'000s
Profit rate swaps (held as fair value hedges)	**-**	**(24,908)**	**345,618**	324	(12,284)	290,235
Cross currency swaps	**3,684**	**(271)**	**263,662**	6,220	(166)	269,399
Forward foreign exchange contracts	**12**	**(43)**	**20,415**	-	-	-
	3,696	**(25,222)**	**629,695**	6,544	(12,450)	559,634

34. FIDUCIARY ASSETS

The aggregate value of assets held in a trust or fiduciary capacity by the Group amounted to **KD 517,186 thousand** (2019: KD 348,614 thousand) and the related income from these assets amounted to **KD 2,687 thousand** (2019: KD 2,416 thousand).

35. IMPACT OF COVID-19

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

Covid-19 support measures
In response to the crisis the Central Bank of Kuwait (CBK) implemented a number of measures targeted at reinforcing the banking sectors ability to play a vital role in the economy. These measures include, but not limited to, the expansion of lending capacity, strengthening financing capabilities, providing direction in lending to productive economic sectors and in the provision of liquidity to impacted customers. Some of the important measures are given below:

- Decreased the Liquidity Coverage Ratio (LCR) from 100% to 80%
- Decreased the Net Stable Financing Ratio (NSFR) from 100% to 80%
- Decreased the regulatory Liquidity Ratio from 18% to 15%
- Increased the limit for maximum negative cumulative gap for liquidity
- Released Capital conservation buffer of 2.5% of risk-weighted assets in the form of CET1
- Decreased the risk weights for lending to SMEs from 75% to 25% to be applied in the calculation of risk-weighted assets
- Increased the limit for maximum permissible financing (Finance-to-Deposits Ratio) from 90% to 100% of deposits
- Increased finance-to-value limits for finance granted to individuals for the purpose of purchasing and/or developing properties
- Provision of finance by banks at concessional profit rates to SMEs and other companies impacted by the Covid-19 (Emergency Line of Credit programme).
- Postpone amounts due from corporate customers impacted by Covid-19 for a period of six months effective from March 2020.

Further, during the year, the Group received an aggregate amount of **KD 4,676** thousand as Covid-19 support towards staff expenses from the Government in some of the jurisdictions where the Group operates. This is included in other operating income in the consolidated statement of profit or loss.

Deferral of instalments for Consumer and Housing finance, credit cards and facilities to SMEs
Kuwaiti banks announced postponement of payment of instalments of consumer and housing finance, credit cards and financing facilities to SMEs for a period of six months effective from April 2020 without charging additional profit for such deferral. The instalment deferrals are considered as short-term liquidity support to address borrower's potential cash-flow issues. Customers hold the option not to participate in this scheme

The Group implemented the deferral by postponing the instalments falling due within the six months period from 1 April 2020 to 30 September 2020 with a corresponding extension of the facility tenure. The instalments deferral resulted in a loss of **KD 48,232 thousand** to the Group arising from the modification of contractual cash-flows. The loss is charged to retained earnings in accordance with the Group's accounting policy as stated in note 2.

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 year ended 31 December 2020.

Significant increase in credit risk
The Group considered the following aspects to assess if there was significant increase in credit risk or objective evidence of impairment in the light of Covid-19 situation.

- Temporary financial difficulties of the borrowers are distinguished from longer-term or permanent impacts
- Borrowers operating in certain sectors or industries are likely to be more severely impacted
- Deferral of instalments or profit payments on financing facilities will not automatically trigger significant increase in credit risk
- Retail finance to certain customer segments are more likely to have significant increase in credit risk arising from job losses and pay cuts
- Significant corporate exposures are individually assessed to identify significant increase in credit risk as and when reliable data is available

The above assessment has resulted a staged downgrade of certain exposures and corresponding increase in ECL.

35. IMPACT OF COVID-19 (CONTINUED)

Macro-economic factors

The Group considered the effects of volatility witnessed in the range of macroeconomic factors and in the scenarios used for determination of ECL. In particular, given the continuing uncertainties and impact stemming from Covid-19, and considering that the situation is fast-evolving, the Group revised certain assumptions reflected through constructing a plausible forward-looking view of the macroeconomic factors. The Group applies appropriate probability weightages on three scenarios (‘Baseline’, ‘Benign’, ‘Severe’) which is combined with significantly conservative revised forecasts of macro-economic factors across all three scenarios when compared to year ended 31 December 2019. The Group also applied management overlay in assessing the ECL for the retail segment given that employees of specific industries in the private sector are expected to be most impacted due to Covid-19. These adjustments and management overlays resulted in significant increase in the amount of ECL requirements for the year ended 31 December 2020.

Notwithstanding the above, the ECL requirement for credit facilities estimated as at 31 December 2020 continues to be lower than the provisions required as per CBK instructions. 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.