(A Public Shareholding Company Incorporated in the State of Kuwait)

Shareholders' Public Subscription Prospectus in the Share Capital Increase

Subscription Period
From 21st April 2019 to 23rd May 2019

Date of Subscription Prospectus
8th April 2019

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Background

Boubyan Bank (K.S.C.P) **("The Bank", "Boubyan" or "Issuer")** was established in the State of Kuwait on 18th April 2004 by virtue of the Amiri Decree No. 88/2004 and according to the rules and instruction of Central Bank of Kuwait. The Bank is registered with the Ministry of Commerce & Industry under No. 104042 and was listed on Kuwait Stock Exchange ("Boursa Kuwait") on May 15th 2006. The Issuer's share capital at the date of this Subscription Prospectus ("Prospectus") is **KD 250,789,518/300** (KD two hundred fifty million, seven hundred eighty-nine thousand five hundred eighteen and three hundred fils) allocated to **2,507,895,183** (two billion five hundred and seven million, eight hundred ninety-five thousand one hundred eighty-three) Shares, 100 Fils (One Hundred Fils) per share ("issued shares") all paid in cash and the value thereof is fully paid up.

The new share capital increase offered for subscription ("**Issue /Offering**"), whose provisions include pre- emption right, as defined herein, shall be composed of **376,184,277** (three hundred seventy-six million one hundred eighty-four thousand two hundred seventy-seven) ordinary shares ("Issue/Offering Shares") at an issue price of 350 Fils (three hundred and fifty Fils) per share ("Issue/Offering) Price") of which 100 Fils is the nominal value and 250 Fils (two hundred and fifty Fils) is the share premium. The Issue represents an increase in the total authorized and issued shares from **2,507,895,183** (two billion five hundred and seven million, eight hundred ninety-five thousand one hundred eighty-three) shares to **2,884,079,460** (two billion eight hundred eighty-four million, seventy-nine thousand, and four hundred sixty) shares at an increase of **15%** (fifteen percent) of the Bank's current authorized and issued capital.

Shareholders **("Eligible Shareholders")** whose names are recorded in the Bank's Shareholders Register kept at Kuwait Clearing Company **("Clearing & Depository Agent")** at the close of Bursa Kuwait Trading Day on 18th April 2019 ("**Record Date**" or "**Eligibility Date**") shall have the pre-emption right to the subscription (during the period designated for exercising the pre-emption right) on the issue shares each pro-rata with his/her/its shareholding percentage ("the pre-emption right"). For clarity, any trading made on the Bank's shares prior to the record date but for which the settlement process has not been completed at Boursa Kuwait on the record date ("the Ex. Date / Cut-off Date of Pre-emption Right " or "the date of trading on the Bank's shares without having the pre-emption right") and accordingly not recorded in the Bank's Shareholders Register, shall not be taken into account in defining the eligible shareholders recorded in the Bank's Shareholders Register on the Record Date. Each eligible shareholder may subscribe for **15%** (fifteen percent) of the issued shares registered in the name of the eligible shareholder on the record date.

The Issue Shares shall be allocated to eligible shareholders underwriting for subscription (during the period designated for exercising the Pre-emption Right) at a number of issue shares equaling **15%** (fifteen percent) of the issued shares on the record date. The remaining unsubscribed issue shares, if any, shall be allocated to eligible shareholders that subscribed for additional number of issue shares exceeding the amount allocated for them (See "Subscription Terms, Conditions & Instructions" Section). In case the total issue shares is not covered during the period allocated to exercising the pre-emption right, the issue shares shall be open for public subscription for the remaining number of shares from the period allocated for exercising the pre-emption right. The number of allocated shares shall be rounded to the nearest whole number. The issuer shall have the absolute right to dispose of the fractional shares, if any, without issuing fractional shares. (After the completion of the offering, the authorized and issued share capital of the Bank will be **KD 288,407,946** (KD two hundred eighty-eight million, four hundred and seven thousand, nine hundred forty-six) allocated to **2,884,079,460** (two billion eight hundred eighty-four million, seventy-nine thousand, and four hundred sixty) shares. The total value of the offering shall be **KD 131,664,496/950** (KD one hundred thirty-one million, six hundred sixty-four thousand, four hundred ninety-six and nine hundred fifty Fils) in cash ("Issue Proceeds"). The issue proceeds will be used to enhance the Bank's capital base in accordance with Basel III Capital Adequacy Ratio and for the Bank's general objectives (see "Use of offering Proceeds" section). In case of non-subscription for all new shares, the remaining shares shall be disposed of in accordance with the Companies Law no. 1 of 2016, as amended, and its Executive Bylaws. The share allocation decision shall be final without any liability on the issuer.

In the meeting dated 4th December 2018, the Bank's Board of Directors recommended increasing the Bank's authorized, issued and paid up capital from **KD 250,789,518/300** (KD two hundred fifty million, seven hundred eighty nine thousand five hundred eighteen and three hundred fils) to **KD 288,407,946** (KD two hundred eighty eight million, four hundred and seven thousand, nine hundred forty six) by issuing and allocating **376,184,277** (three hundred seventy-six million, one hundred eighty-four thousand, two hundred seventy-seven) ordinary shares at 350 fils (three hundred fifty fils) per share (including the share premium), after obtaining the necessary approvals from regulatory authorities and the Bank's General Assembly.

The Bank's Sharia Supervisory Board has perused the recommendation of the Board of Directors to increase the Bank's authorized, issued and paid-up share capital by **376,184,277** (three hundred seventy-six million one hundred eighty-four thousand two hundred seventy-seven) ordinary shares at an issue premium of 250 (two hundred and fifty) fils per share added to the nominal value of 100 (One Hundred) fils, all paid in cash, by issuing new shares for public subscription/offering allocated to existing shareholders recorded in the Bank's registers as at 18th April 2019 (The Record Date), each shareholder according to his/her/its shareholding percentage in the Bank's share capital.

Subscription may be exercised by the Bank's shareholders for shares not subscribed for. If applications for subscription exceed the number of shares offered for subscription, these shares shall be allocated to subscribers according to their percentages in subscription. In all cases, where subscription for all new shares is not exercised, unsubscribed shares shall be disposed off as per the Law. The Board of Directors shall be authorized to call for capital increase and determine all controls, rules, terms and conditions of subscription and disposition of share fractions, if any. Following perusal of the subscription prospectus, the Sharia Supervisory Board has decided that there are no Sharia impediments to increasing the Bank's share capital as set forth in the subscription prospectus.

The Kuwait Capital Markets Authority "CMA" and the Central Bank of Kuwait "CBK", for the units under its supervision, are the regulatory bodies responsible for issuing licenses and the approvals necessary for issuing securities in Kuwait. This prospectus has been prepared in accordance with the provisions of the CMA Law no. (7) of 2010 Concerning the Establishment of the Capital Markets Authority and Regulating Securities Activities, as amended, and the Executive Bylaws thereof.

On 18th December 2018, CBK approved Boubyan Bank's application to increase its share capital by **376,184,277** (three hundred seventy-six million one hundred eighty-four thousand two hundred seventy-seven) ordinary shares through issuing new ordinary shares to be offered for public subscription. The issue premium of 250 (two hundred fifty) Fils per share will be added to the 100 (one Hundred) Fils nominal value. In addition, on the 20th February 2019, the CMA approved the Bank's capital increase from **KD 250,789,518/300** (KD two hundred fifty million, seven hundred eighty nine thousand five hundred eighteen and three hundred fils) to **KD 288,407,946** (KD two hundred eighty eight million, four hundred and seven thousand, nine hundred forty six) at an increase of **KD 37,618,427/700** (KD thirty-seven million, six hundred eighteen thousand, four hundred twenty-seven and seven hundred Fils) divided into **376,184,277** (three hundred seventy-six million, one hundred eighty-four thousand, two hundred seventy-seven) ordinary shares at a nominal value of 100 (One Hundred) Fils per share with issue premium. The increase shall be allocated to the Bank's shareholders each pro- rata in accordance with his/her/its shareholding percentage.

The Bank's Extraordinary General Assembly Meeting approved the issue at its meeting on 17th March 2019. Accordingly, the Bank's Board of Directors approved, in its Meeting dated 3rd April 2019, to call for the share capital increase and to authorize the Chief Executive Officer of the Bank to determine the subscription period for the share capital increase in the subscription prospectus and the time schedule for the corporate actions. On 7th April 2019, the CMA approved the subscription Prospectus and the offering of the share capital increase**.**

The Issue/Offering Shares shall be of the same class as the existing shares in the issuer's capital. Each share shall confer its holder one vote and each shareholder ("The Shareholder") shall be entitled to attend and vote in the General Assembly meetings. No shareholder shall have any additional voting rights in preference to any other shareholder. The shareholders of the issue shares shall be entitled to their rights in future dividends whenever announced by the issuer.

The Subscription Period for exercising pre-emption right in the issue/offering shares will commence on 21st April 2019 for 15 days till 5th May 2019 ("subscription period designated for exercising pre-emption right"). Subscribers may submit their subscription applications during the prescribed period (see "Subscription Terms, Conditions and Instructions" section). In case shareholders do not subscribe in all shares offered for subscription, the share surplus will be offered for Public Subscription. The period designated for the Public Subscription in the share surplus shall commence from 12th May 2019 for 12 days till 23rd May 2019. In case all shares offered for Public Subscription are covered before the expiry of the cut-off date stated above, the subscription shall be closed. The Board of Directors may extend the subscription period at its absolute and sole discretion in accordance with applicable laws and regulations.

After the subscription period, completion of the final allocation of the issue shares, fulfillment of all necessary regulatory procedures, the issue shares will be listed on the stock exchange for trading without any restrictions exactly the same as the issued shares. The Important Notices should be carefully reviewed before taking the decision to invest in the issue/offering shares.

As per the provisions of Law No. 7 of 2010 the Establishment of the Capital Markets Authority and Regulating Securities Activities, without prejudice to the tax exemptions from the prescribed tax on profits arising from disposal of Securities issued by companies listed in the Exchange, returns in respect of Securities, bonds, financial Sukuk and all other similar Securities, regardless of the issuer, shall be exempted from taxes.

Notice to Potential Investors

We hereby advise you to seek the advice of a person licensed under the Law and specialized in providing advisory services on the contents of this prospectus prior to making the decision for underwriting in this subscription.

It should also be noted that, without the prior approval of the Central Bank of Kuwait, the ownership of one person whether natural or corporate entity may not exceed 5% (five percent) of the Bank's capital, either directly or indirectly, save for government agencies and entities with attached and independent budgets. If the ownership of one person exceeds the said percentage, that person should dispose of the increase within the period set by the Central Bank of Kuwait. This violation shall result in the shareholder not availing the amount of share increase in terms of the voting rights in the Bank’s General Assembly and in the Bank’s management.

The members of the Board of Directors, whose names appear under the **(“Board of Directors’ Information”)** Clause, shall - jointly and severally - assume full liability for the accuracy and integrity of the information contained in this document, and assure, to the best of their knowledge and belief and after conducting a full and detailed due diligence, that there are no other facts or information that the omission thereof may have impact on the accuracy and integrity of any statement set forth in this prospectus.

The legal advisor of the Issuer certifies that the Prospectus and relevant documents have been reviewed and that, to the best of his knowledge and belief after undertaking all reasonable inquiries, the prospectus satisfies all relevant legal requirements and that the issuer has obtained all the approvals necessary for making the issuer’s obligations valid, effective, binding and legally enforceable.

Boubyan Bank K.S.C.P., being the Issuer and the Issue Manager, declares that it assumes liability in the event that the information included in the Prospectus is incorrect and that, to the best of its knowledge after making all reasonable inquiries, the Prospectus has not omitted any material information and that it has been prepared based upon accurate and factual information.

The Capital Markets Authority (the “CMA”) assumes no liability in respect of the contents of this Prospectus. It shall neither verify nor provide any declaration about its accuracy, integrity or completeness, and further exempts itself clearly and explicitly from any liability of whatever nature as a result of any loss that may arise or occur due to reliance on any portion of this Prospectus. Further, the CMA shall not be a party to any claim in connection with any damages or harms arising from reliance on any portion of this Prospectus.

This Prospectus was drawn on 8th April 2019.

Liability Statement

Persons Responsible for the Subscription Prospectus

This Prospectus has been prepared by:

Name: Adel Abdul Al-Majed Wahab

Position: Vice-Chairman & Chief Executive Officer

Address : Boubyan Bank (K.S.C.P), P.O. Box 25507, Safat 13116, State of Kuwait.

Declaration

The aim of this Prospectus is to provide the information required to existing shareholders and new shareholders eligible to subscribe.

The members of the Board of Directors, whose names appear under the (**"Board of Directors' Information"**) Clause, shall - jointly and severally - assume full liability for the accuracy and integrity of the information contained in this document, and assure, to the best of their knowledge and belief and after conducting a full and detailed due diligence, that there are no other facts or information that the omission thereof may have impact on the accuracy and integrity of any statement set forth in this prospectus.

The Board of Directors hereby confirm that, to the best of their knowledge and after undertaking all reasonable inquiries, that all the information set in the prospectus is complete, accurate and true, that the statement is issued after due diligence, that disclosure to investors is made of all information relating to the securities and the issuer for the purpose of deciding whether to underwrite in this subscription or not and that compliance is maintained with all relevant provisions stipulated under Law no. 7 of 2010 Concerning the Establishment of the Capital Markets Authority and Regulating Securities Activities, the Executive Bylaws thereof, issued by virtue of the CMA Resolution no. 72 of 2015, as amended, the Kuwaiti Companies Law no. 1 of 2016, the Executive Bylaws thereof, as amended, and the CMA /CBK regulations and instructions.

On behalf of the Issuer's Board of Directors:

Name	Position	Signature
Adel Abdul Wahab Al-Majed	Vice-Chairman & Chief Executive Office	

Legal Advisor's Declaration

I, the legal advisor of the Issuer, hereby certify that I have reviewed the Prospectus and relevant documents and, to the best of my knowledge after undertaking reasonable inquiries, that the prospectus satisfies all relevant legal requirements and that the issuer has obtained all the approvals required for making the issuer's obligations valid, forcible and binding.

Name	Position	Signature
Dr. Fayez Al Kandari	General Legal Consultant	

Important Notices

This Prospectus includes information about Boubyan Bank K.S.C.P ("the Bank", "Issuer", " Boubyan" or "Boubyan Bank") in respect of the shares, subscription and subscription rules, terms and conditions. The Bank has not authorized any other entity to release, make or provide any statements, information or representations regarding the Bank or the shares other than what is set forth in this Prospectus or as approved for such purpose by the Bank. Any such statements, information, representations or assumptions should not be relied upon as having been authorized by the Bank in its capacity as an issuer or an Issue Manager save those stipulated herein.

While the Bank has made all reasonable enquiries as to the accuracy of the information contained in this Prospectus as at the date hereof, certain information about the market and industry sectors herein included have been derived from external sources. While neither the Bank, nor its respective advisers have any reason to believe that the market and industry information is materially inaccurate, it is worth mentioning that such information has not been independently verified and, thus, no representation is made with respect to the integrity, accuracy or completeness of any such information.

The information contained in this Prospectus as at the date hereof is subject to change. In particular, the actual financial position of the Bank and the value of the shares may be adversely affected by future developments due to inflation, financing charges, taxation or any other economic or political changes and other factors beyond the Bank's control. Neither the delivery of this Prospectus nor any verbal, written or printed statement in relation to the shares is intended to be, or should be construed or relied upon in any way, as a promise or representation of any future earnings, results or events.

For the banks subject to their supervision, the Central Bank of Kuwait and the Capital Markets Authority are the authorities vested with the right to issue the necessary licenses and approvals for the capital increase. The approval of the CMA in Kuwait has been obtained for this Prospectus, however, the CMA in Kuwait is not held liable in anyway whatsoever for the contents of this Prospectus, and does not guarantee the soundness and accuracy of any information mentioned herein. The CMA has not further decided whether the structure demonstrated in this Prospectus is in compliance with the provisions of the Noble Islamic Sharia or not. Therefore, the CMA in Kuwait does not bear any liability whatsoever as to any type of loss arising from relying on the contents of this Prospectus partially or fully. It is advised to consult an investment advisor. Furthermore, the CMA in Kuwait shall not serve as a party in any case pertinent to damage arising from any prospectus approved thereby. This Prospectus should not be considered a recommendation from the Bank or any of its advisers or affiliates to participate in the issue of the shares. The information provided herein is of a general nature and has been prepared without taking into account any potential investor's strategic objectives, financial situation or particular investment needs. Each recipient of this Prospectus shall be responsible for obtaining his/her/its own independent professional advice in relation to the Bank and the offering of the shares prior to making an investment decision. Further, the recipient of the prospectus shall be responsible for making his/her/its own independent evaluation of the Bank, investment in the shares and of the information and assumptions contained herein by seeking such advice, analysis and projections as he/she/it deems necessary in making any investment decision. Potential investors shall not construe the contents of this document as constituting tax, investment or legal advice.

Prior to purchasing any shares, a prospective investor should consult a financial advisor licensed by Kuwait Capital Markets Authority along with his/her/its own legal, business and tax advisors to determine the appropriateness and consequences of investment in shares for such an investor and arrive at an independent evaluation of such an investment. The sole purpose of this prospectus is to provide background information about the Bank to assist each recipient of the prospectus in making an independent evaluation of the investment in these shares.

No person has been authorized to give any information or make any representations in connection with the offering of the shares other than those contained in this Prospectus and, if given or made by third parties, any such information or representations should not be relied upon as having been authorized by the Bank as an Issuer or Issue Manager.

Some statements in this Prospectus may be deemed to be forward-looking statements. Forward-looking statements include information concerning the Issuer's plans, objectives, goals, strategies, future operations and performance and the assumptions underlying these forward-looking statements. When used in this document, the words "anticipates", "estimates", "expects", "believes", "intends", "plans", "aims", "seeks", "may", "will", "should" and any similar expressions generally identify forward looking statements. The Issuer has based these forward-looking statements on the current view of the Issuer's management with respect to future events and financial performance. Although the Issuer believes that the expectations, estimates and projections reflected in the Issuer's forward-looking statements are reasonable as of the date of this Prospectus, if one or more of the risks or uncertainties materialize, including those which the Issuer has identified in this Prospectus, or if any of the Issuer's underlying assumptions prove to be incomplete or inaccurate, the Issuer's actual results of operations may vary from those expected, estimated or predicted. These forward-looking statements speak out denotations only as at the date of this Prospectus. Without prejudice to any requirements under applicable laws and regulations, the Issuer clearly and expressly disclaims any obligations or undertaking to disseminate, after the date of this Prospectus, any updates or revisions to any forward-looking statements contained herein to reflect any change in the expectations thereof or any change in events, conditions or circumstances on which any such forward-looking statements are based.

By reading and accepting this prospectus, the recipient agrees to comply with its conditions and declares that he/she/it is responsible for maintaining full compliance with the Laws in respect of any purchase including getting any necessary government or non-government approvals and satisfying any other requirements.

Summary of the Offering

The following summary should be read as an introduction to, and is qualified in its entirety by reference to, the more detailed information appearing elsewhere in this Prospectus. This summary does not contain all the information that prospective investors should consider before deciding to invest in the Issue Shares and does not purport to be complete. Accordingly, any decision by a prospective investor to invest in the Issue Shares should be based on consideration of this Prospectus as a whole.

Issuer	Boubyan Bank K.S.C.P (Kuwaiti Shareholding Company, Public) incorporated in the State of Kuwait on 21st September 2004 by virtue of the Amiri Decree No. 88 of 2004.
Issuer's Address	Qibla, P.O. Box no. 25507, Safat, 13116, Kuwait City, State of Kuwait
Nature of Offering	Public Subscription in the Issue/Offering shares with pre-emption right to Eligible Shareholders at 15% (fifteen percent)
Offer Price	350 fils (three hundred fifty Fils) per Share (including the nominal value and the issue premium).
Nominal Value	100 (One Hundred) fils per Issue Share
Issuance Premium	250 (two hundred fifty Fils) per Issue Share
Total number of Shares immediately prior to Offering	**2,507,895,183** (two billion five hundred and seven million, eight hundred ninety five thousand one hundred eighty three) ordinary shares at a nominal value of 100 fils each, all of which are fully paid
Issuer's authorized, issued and paid up capital	**KD 250,789,518/300** (KD two hundred fifty million, seven hundred eighty nine thousand five hundred eighteen and three hundred fils)
Treasury Shares	283,242 shares.
Number and Nature of Issue Shares	**376,184,277** (three hundred seventy-six million, one hundred eighty-four thousand, two hundred seventy-seven) ordinary shares representing 15% (fifteen percent) of the Issuer's existing issued share capital.
Number of offering shares undertaken to be subscribed	Nil
Value of undertaken Issue/ Offering shares	Nil
Total number of shares immediately following the Offering	**2,884,079,460** (two billion eight hundred eighty four million, seventy nine thousand, four hundred sixty) shares.
Issuer's issued capital immediately following the Offering	**288,407,946** (KD two hundred eighty eight million, four hundred and seven thousand, nine hundred forty six)
Percentage increase in issued share Capital	The capital of the Issuer will be increased by **KD 37,618,427/700** (KD thirty-seven million, six hundred eighteen thousand, four hundred twenty-seven and seven hundred Fils) representing an increase of 15% (fifteen percent) in the Issuer's authorized and issued share capital immediately prior to the Offering.
Total value of the Offering	**KD 131,664,496/950** (KD one hundred thirty-one million, six hundred sixty-four thousand, four hundred ninety-six and nine hundred fifty Fils) inclusive of the nominal value and the issue premium.
Restrictions on trading in securities offered for subscription and any future arrangements	Nil

Offering/Subscription Expenses	Offering Expenses are estimated to be approximately KD 300,000 (KD three hundred thousand). The Bank shall be responsible for all costs relating to the Offering, which includes subscription management fees, printing and publications expenses and other related legal notices.
Offering/Subscription Method	Subscribers may submit the subscription application online via the website for Subscription of up to 8,500 (Eight Thousand and Five Hundred) Shares or at the offices of the Clearing and Depositary Agent where Subscribers can submit the form prepared for subscription ("Subscription Application Form") during the Subscription Period. Amendments to and/or withdrawal of the Subscription Application shall not be permitted once submitted. Upon submission, the Subscription Application shall serve as a legally binding agreement between the subscribers and the Issuer.
Offering/Subscription Period (TBD)	From 21st April 2019 to 23rd May 2019
Offering/Subscription Period Allocated for Exercising Pre-emption Right (TBD)	From 21st April 2019 to 5th May 2019
Period for Public subscription in surplus shares (TBD)	From 12th May 2019 to 23rd May 2019
Allocation date (TBD)	Within 5 working days of the end of the first or second subscription periods.
Eligible Shareholders (having Pre-emption Right to Subscribe in the Issue Shares)	Shareholders recorded in the Bank's Shareholder's Register with Kuwait Clearing Company K.S.C. at the close of trading on Boursa Kuwait on the Record Date, i.e. shareholders recorded in the Bank's Shareholders Register at Boursa as at 18th April 2019. For clarity, any trading on the Bank's shares prior to the Record Date, but for which the trade settlement process at Boursa Kuwait has not been completed as at the Record Date (Ex- Date), and as a result have not yet been recorded on the Bank's Shareholder Register, will not be considered in determining the Eligible Shareholders enrolled as at the Record Date.
Minimum Subscription	1 (One) Share
Eligible shareholder options for the Issue shares	Eligible shareholders can exercise any of the following options in respect of the Issue Shares: (1) Exercising their pre-emption right in the Issue Shares; (2) Exercising their pre-emption right in the Issue Shares as well as subscribing for additional Issue Shares; (3) Assigning their pre-emption right for subscription in the Issue Shares as per the approved mechanism at least five days before the offering is closed (any such assignment shall be made in accordance with the relevant rules applied by the Clearing Agency), or (4) Not exercising any of the above options.
Effect on Eligible Shareholders who choose not to subscribe in Issue Shares	Eligible Shareholders who do not subscribe to the Issue Shares shall be subject to a reduction in the proportion of their equity in the Issuer. They may also experience a change in the value of their Existing Shares,

Subscription for Additional Issue Shares	Eligible Shareholders have the right to subscribe for additional Issue Shares ("Additional Issue Shares") in addition to their entitlement to Issue Shares under the pre-emption right.
Public Subscription / Offering	In case all shares offered for subscription are not covered during the period designated for exercising the pre-emption rights, the share surplus will be offered for Public Subscription where any subscriber may subscribe in the surplus issue shares.
Allocation of Issue/Offering shares	**Allocation during the period designated for exercising the pre-emption right:** Eligible Shareholders shall have the right to subscribe in any number of shares. However, exercising the Pre-emption right shall be limited to 15% (fifteen percent) of the shares held by eligible subscriber registered in the record as at 18th April 2019. The remaining surplus issue shares, as a result of some shareholders not exercising their pre-emption right, shall be allocated to eligible shareholders that subscribed for additional number of issue shares exceeding the amount allocated for them each pro rata with their subscription for the Additional Issue Shares in case of full coverage of the issue shares. Each subscriber will be refunded the amounts paid in excess of the shares actually allocated as per these rules. In case issue shares are not fully covered after the period designated for pre-emption right, subscription will be opened for public offering. **Allocation during the Period for Public Offering to the surplus shares:** During the subscription period, the Subscriber shall be entitled to subscribe to any number of shares he/she /it elects. Shares will be allocated to shareholders pro rata with the number of additional remaining shares to the total number of subscribed shares. The number of shares allocated will be rounded to the nearest whole number. The Issuer reserves the right to dispose off the fractional shares. **In case all shares offered for subscription are subscribed before the end of the period for Public Offering, the subscription will be closed.** In case subscription does not cover the entire issue shares, the remaining shares will be disposed of as per Kuwait Companies Law No. 1 of 2016 (as amended) and the Executive Bylaw thereof. The allocation of the Issue Shares shall be final without the least liability on the Issuer.
Share Fractions	Subscription shall not be made for fractions of Issue Shares and, wherever necessary, the number of Issue Shares to which an Eligible Shareholder has a fractional entitlement shall be rounded to the nearest whole number. The Issuer shall have the sole right to dispose of the share fractions at its own discretion **(Refer to "Subscriptions Terms, Conditions and Instructions" Section).**
Use of Offering Proceeds	The capital increase will be used to enhance the Bank's capital adequacy ratio as per Basel III capital adequacy framework and for the Bank's general objectives to enhance the robustness of the bank's financial position .
Excess Offering Monies	Excess Offering Monies, if any, will be refunded to subscribers who have participated in the Offering without any profit, commission, charge or withholding by the Bank **(Refer to "Subscriptions Terms, Conditions and Instructions" Section).**

Offering Terms	The Rights of pre-emption in the Offering shall be exercised only by Eligible Shareholders. The Issuer and the Clearing and Depository Agent reserve the right to reject, in full or in part, any Subscription Application Form, which is not in compliance with the terms of the Offering. Once submitted, Subscription Application Forms cannot be amended or withdrawn .The acceptance of Subscription Application Forms by the Clearing and Depository Agent and the Issuer constitutes a binding agreement between subscribers and the Issuer **(Refer to "Subscriptions Terms, Conditions and Instructions" Section).**
Ownership Cap	Pursuant to the Issuer's articles of association, any percentage of the Issuer's shares may be held by a shareholder at any time subject to compliance with all relevant ministerial resolutions and CBK instructions issued from time to time, however, the prior approval of CBK is required to hold title to more than 5% of the total shares issued in the share capital of the Issuer. Government entities and entities with attached and independent budgets are exempted from the cap
Excess Offering Monies	Excess Offering Monies, if any, will be refunded to subscribers who have participated in the Offering without any profit, commission, charge or withholding by the Bank **(Refer to "Subscriptions Terms, Conditions and Instructions" Section).**
Dividends	The shareholder of the Issue Shares will be entitled to receive any dividends declared by the Issuer in future (same as issued shares).
Voting Rights	The Issuer has only one class of shares. Each Issue Share entitles the shareholder to one vote and the shareholder has the right to attend and vote at the General Assembly meetings. No Shareholder has any preferential voting right
Short-Term Earnings per Share	The estimated earnings per share is 22 fils for the fiscal year ending 31st December 2019.
Share value in the event of liquidation of the Bank	In the event of liquidation of the Bank prior to the capital increase, the book value per share is 171 fils according to the financial statements for the year ended 31 December 2018.
Recover the value of shares	Existing and new shareholders can recover the shares' value (either by profit or loss) through direct sale on Boursa Kuwait. There are no differences between the Issue Shares and Existing Shares with regard to any of rights.
Rights arising from the Issue Shares in the event of liquidation of the Issuer	A Shareholder is entitled to receive a portion pro rata with the shares he/she/it holds from the Issuer's assets on liquidation following repayment of the issuer's debts and other costs.
Process and Procedures in the event of undersubscribed share capital increase	If the share capital increase has not been fully subscribed during the Subscription Period, the Board of Directors of the Bank may decide to extend the Offering Period. If the share capital increase has not been fully subscribed during the extended offering period, the Board of Directors of the Bank may decide to either, (i) retract the share capital increase and refund the subscribers, or (ii) limit the share capital increase to the amount actually subscribed for at the close of the subscription Period. Subscribers for the Issue Shares will not have the right of retraction except as per the Law.

Listing of Shares	After the close of the Subscription Period, the final allocation of the Issue Shares and completion of all the necessary regulatory procedures, a statement of Issue Shares will be issued and the Issue Shares will be listed on Boursa Kuwait and will be set for trading without any restrictions.
Regulatory Authorities	The Central Bank of Kuwait and the Capital Markets Authority.
Auditors	Deloitte & Touche, Al Wazzan & Co. Ernst & Young, Al Aiban, Al Osaimi & Partners
Issuer and Issue Manager	Boubyan Bank K.S.C.P
Clearing and Depository Agent	Kuwait Clearing Company K.S.C.
Law	Laws of the State of Kuwait
Courts	Courts of the State of Kuwait
Issuer's Board of Directors	Mr. Mahmoud Yousef Al-Fulaij Mr. Adel Abdul Wahab Al Majed Mr. Abdulaziz Abdullah Al-Shaya Mr. Adnan Abdullah Al-Othman Mr. Mohammed Yousef Ahmed Al-Saqer Mr. Waleed Ibrahim Abdul Rahman Al Asfour Mr. Hazim Ali Al-Mutairi Mr. Waleed Abdullah Ibrahim Al Houti

Subscription Terms, Conditions & Instructions

Introduction

The subscription shall be divided into two periods: The first period will be allocated to eligible shareholders to exercise their pre-emption right (shareholders recorded in the Bank's Shareholders Register at Boursa Kuwait as at 18th April 2019). The second period shall be allocated for public subscription in surplus shares not subscribed during the period for exercising pre-emption right. In case all shares offered are subscribed for before the end of the public subscription period, subscription will be closed. In case of subscription to the entire shares during the exercise of pre-emption right, the subscription will be closed and the public subscription will not be undertaken.

Subscription Instructions

First: Subscription through the website:

The website allows subscription in capital increase of **8,500** (eight thousand and five hundred) shares, equivalent to **KD 2,975** (KD two thousand nine hundred and seventy-five) or less. Payment shall be made through K-NET service.

The Subscriber shall:

- Login to the website via the link: https://www.ipo.com.kw
- Register the civil ID number, thus, the system shall verify whether subscriber is eligible to the subscription or not (verification shall be conducted during the period of exercising the pre-emption right only).
- Record the number of shares to be subscribed for.
- Be transferred to the payment portal via the K-NET service, where the subscriber can pay from his/her/its own account (no other person may pay on behalf of the Subscriber except in the cases provided for under law "Required documents shall be reviewed when submitting the subscription application". The Subscriber shall bear all legal consequences in case of violation).

Second: Subscription through referral to the clearing and depository agent "to subscribe for a number of shares exceeding 8,500 (eight thousand and five hundred) shares":

- The Subscriber shall log on the link https://www.ipo.com.kw to print the subscription information document, including but not limited to the name of the subscriber, the civil ID number, the number of shares to be subscribed and their value.
- The Subscriber shall visit his/her/its own bank and submit a copy of the Subscription Document printed from the above link and transfer the amount required to the Bank Account (not profit bearing) to increase the bank's share capital of (net amount without any charges by the transferring bank and the receiving Bank) stated below:

Name of Bank :	Boubyan Bank K.S.C.P
Account number:	0003001366
IBAN :	KW85BBYN0000000000000003001366
Swift	BBYN
Beneficiary:	Boubyan Bank K.S.C.P
Reference / Description	Boubyan Bank capital increase + subscriber's ID number (civil Identity Card number) + subscriber's contact details (Telephone number)

- The Subscriber shall get an original deposit voucher of the amount transferred from his own bank and then refer to the clearing and depository agent to complete the remaining procedures.
- The Subscriber shall go to the headquarters of the Clearing and Depository agent located at the Arabian Gulf Street, Ahmad Tower, the Fifth floor to submit the documents listed in the «Documents Required when Submitting Subscription Application» in this prospectus.
- The Clearing and Depository Agent shall provide the Subscriber with a deposit receipt of the Subscription.

Failure of any Subscriber to submit a duly completed Subscription Application Form (together with all applicable supporting documentation thereto) at the premises of Kuwait Clearing Company, after the transfer or deposit of the Subscription Monies as required in this Prospectus, shall render the Subscription Application of a Subscriber null and void. Subscription monies shall not be accepted in cash.

Subscription Application Form

Subscribers that wish to participate in the Subscription/Offering, can submit the Subscription Application Forms during the relevant Subscription Period at the offices of the Clearing & Depositary Agent. Each Subscriber must agree to the terms and conditions and provide all relevant information in the Subscription Application Form. The Issuer and the Clearing & Depository Agent reserve the right to reject, in full or in part, any Subscription Application Form in the event any of the subscription terms and conditions are not satisfied, or the instructions are not duly and punctually followed including without limitation:

1) failure of the Subscription Application Form to comply with the applicable laws and regulations,
2) non-payment by the Subscriber of the full amount of the Subscription Monies,
3) inaccuracy or invalidity of any information contained in the Subscription Application Form or failure of the Subscription Application Form to comply with or follow any terms or requirements set forth under this Prospectus or in the Subscription Application Form.

   Amendments to and withdrawal of the Subscription Application Form shall not be permitted once the Subscription Application Form has been submitted. Furthermore, the Subscription Application Form shall, upon submission, represent a legally binding agreement between the Subscriber and the Issuer.

   The Subscription Application Form and all relevant terms, conditions and undertakings shall be binding on the Subscribers and their assignees, executors, estate managers and beneficiaries, unless specifically stipulated otherwise in this Prospectus. The Subscriber must accept whatever number of Issue Shares is allocated to him/her/it provided such amount does not exceed the amount the Subscriber has indicated in his/her/its Subscription Application Form.

The terms and conditions, and receipt of the Subscription Application Form and contracts arising therefrom shall be subject to the laws of the State of Kuwait and must be interpreted and applied in accordance therewith.

All Subscribers must read the instructions relating to the subscription carefully before submitting the Subscription Application Form. Submission of the Subscription Application Form to the Clearing and Depository Agent shall be considered a binding agreement to and acceptance of all of the Subscription Terms and Conditions.

The Subscription Application Form

The subscriber shall specify in the subscription application the number of issue shares he/she/it intends to subscribe for and transfer the full due amount of subscription. The subscriber shall submit the subscription form within the periods designated for subscription (the period allocated for pre-emption right and the period for public subscription in the share surplus).

Documents required upon submitting the subscription applications

The Subscription Application Form must be accompanied by the following documentation, as applicable. Staff at the offices of the **Clearing and Depository Agent** will compare copies with originals and return originals to the Eligible Shareholder:

Individual subscribers

- Original and copy of the personal civil identification card;
- Original and copy of the passport for citizens of GCC states;
- Original and copy of special legal power of attorney for subscribing for shares (for subscribers using power of attorneys);
- Original and copy of Certificate of Guardianship for orphans;
- Original and copy of Certificate of Guardianship for minors;
- Original and copy of a Limitation of Succession Deed for heirs.
- Original and copy of a trusteeship judgment.

Corporate subscribers

- Original and copy of Commercial Registration Certificate;
- Original and copy of the Authorized Signatories Certificate or Certificate of the Commercial Register as the case may be;
- Original and copy of the personal identification card of the authorized signatory;
- Original and copy of the specimen signature for the authorized signatory issued by the Ministry of Social Affairs and Labor or attested by the Chamber of Commerce and Industry; and
- A letter issued by the authorized signatory on behalf of the entity authorizing the subscription.

Non-Kuwaiti subscribers

Non Kuwaiti subscribers (whether corporates or individuals), as applicable, are required to provide the equivalent of the aforementioned documentation as issued by their jurisdictional authorities if they do not have Kuwait issued documentation as highlighted further above.

Without prejudice to the other grounds for rejection of the Subscription Application Forms, the **Bank** and the **Clearing and Depository Agent** shall have the right to reject the Subscription Application Form in the event the Subscription amounts are not received in full and credited to the subscription account at the time of submitting the Subscription Application to the Subscription Agent.

Applicant Declarations

By completing and submitting the Subscription Application Form, the Subscriber:

- agrees to subscribe for the number of Issue Shares set forth in the Subscription Application Form that is final and irrevocable;
- warrants that he/she/it has read and carefully studied this Prospectus and understands all of its contents;
- accepts the Memorandum and Articles of Association of the Issuer, all legal provisions applicable to the ownership of the shares to be allocated by subscription and all of the subscription terms and conditions stated in this Prospectus;
- accepts that the Issuer and the Clearing and Depository Agent shall have the right to refuse any Subscription Application Form for any of the reasons set forth in this Prospectus;

- accepts the number of Issue Shares allocated to him/her/it (to the maximum amount he/she/it has subscribed for) and all other instructions of subscription stated in the Subscription Application Form and this Prospectus; and
- undertakes that he will not cancel or amend the Subscription Application Form after submission to the Clearing and Depository Agent.
- the corporate subscriber declares, at its full responsibility, that it has obtained all the authorizations and consents required pursuant to its Memorandum and Articles of Association or pursuant to the Law, in order to enable it to apply for the subscription and to perform its obligations in accordance with the terms and conditions contained in the Prospectus and to assign its pre-emption right, including the consent of its Board of Directors or the General Assembly, as the case may be, in respect of shareholding companies.

Pre-emption Right:

The Pre-emption for subscription for the issue shares shall be restricted to the shareholders of the current issued shares recorded in the Bank's Register as at the end of the Record Date (18th April 2019), The Shareholders whose names are recorded in the Bank's Shareholders Register on the record date. For clarity, any trading made on the Bank's shares prior to the record date where the settlement process is not completed at Boursa Kuwait on the record date and accordingly not recorded in the Bank's register of shareholders, shall not be taken into account in identifying eligible shareholders recorded in the Bank's Shareholders Register on the Record Date. Each eligible shareholder may subscribe for **15%** (fifteen percent) of the issued shares registered in his/her/its name as at the record date.

Full or Partial Subscription for the Issue Shares by eligible shareholders (During Pre-emption exercise period)

An Eligible Shareholder who wishes to exercise his/her/its entire pre-emption right to subscribe for all Issue Shares to which he/she/it is entitled must complete the Subscription Application Form and submit it together with the required documentation and payment of the full Subscription amount within the subscription period.

Fractions of shares may not be subscribed and, wherever necessary, the entitlement figure shall be rounded to the nearest whole number.

In case all shares allocated for eligible subscribers are not fully subscribed for, the issue shares, which are not subscribed for by Eligible Shareholders- if any, shall be allocated on a pro rata basis to other Eligible Shareholders who submitted applications to subscribe for Issue shares in excess of their entitlement on the basis of additional remaining shares to the additional shares requested by eligible shareholders on a pro-rata basis among them if issue shares are covered. Any excess subscription funds, if any, shall be refunded to the relevant subscriber without any profits, commissions, and fees or withholding by the issue manager.

If an Eligible Shareholder does not wish to exercise his/her /its right to the Issue Shares, he/she/it is not required to take any measures.

If an Eligible Shareholder wishes to subscribe to some but not all of his/her /its entitlement to Issue Shares, he/she/it must submit a Subscription Application Form together with other required documentation, and pay the Subscription Monies for the Issue Shares applied for during the Offering Period. An Eligible Shareholder may not subscribe in his/her /its entitlement to Issue Shares and to Additional Issue Shares more than once.

For clarity, an eligible subscriber may subscribe once during the period of exercising the pre-emption right and another time during the public subscription, if any. Subscriber may not subscribe more than once during the public subscription period. In case of repetition during the same subscription period, all repeated subscription applications shall be excluded.

Eligible Shareholders' Non-Subscription for the Issue Shares

Eligible shareholders who do not subscribe for the issue shares during the period allocated for exercising the pre-emption right shall be subject to a decline in their ownership percentage in the Issuer's capital and may face changes in the value of their existing shares.

Declining Subscription Forms

The Issuer and the Clearing & Depository Agent reserve the right, without the least liability, to reject, in full or in part, any Subscription Application Form in the event that any of the forms are not compliant with the applicable laws and regulations or any of the subscription or prospectus terms and conditions are not met or the instructions are not duly and punctually followed including without limitation.

A. mismatch between the amount paid and the number of required shares;

B. if the application is not accompanied with a document evidencing the full payment of the subscribed shares,

C. the subscriber does not pay the full subscription amount once at the time of submission of the Subscription Application Form;

D. in the event of Bank Transfer for the Subscription, the application shall be rejected if the transfer is not executed within three working days from the submission date of the Subscription Application Form;

E. the inaccuracy, incompleteness, unclarity or illegibility of any information contained in the Subscription Application Form or if the Subscription Application form is submitted more than once,

F. failure of the Subscription Application Form to comply with or follow any terms or requirements set forth under this Prospectus or in the Subscription Application Form.

In case there is any difference between the subscribers' information/data and the information registered with the Public Authority for Civil Information, the Issuer and the Clearing & Depository Agent shall have the right to discard these applications from the allocation process without any liability on the Issuer and the Clearing and Depository Agent unless the reasons for the difference are clarified and attached with the documents.

Applications submitted by any means intended to conceal fictitious or sham subscriptions or otherwise, shall not be accepted without the least liability on the Issuer and the Clearing & Depository Agent.

Subscription Allocation & Surplus

First: Period allocated for exercising pre-emption right

Eligible shareholders shall be entitled to subscribe for 15% (fifteen percent) of the number of issued shares they actually possess. The remaining unsubscribed issue shares, if any, shall be allocated to eligible shareholders that subscribed for additional number of issue shares exceeding the amount allocated for them based on the number of issued shares owned by the eligible shareholder. In case the additional unsubscribed issue shares are subscribed for in excess of the available additional shares, the additional issue shares will be allocated to eligible shareholders as set forth herein. The number of allocated shares shall be rounded to the nearest whole number. The issuer shall have the absolute right to dispose of fractions of shares. In case eligible shareholders do not cover the issue shares, surplus shares shall be open for public subscription.

Second: Public Subscription for the Surplus Shares

During the public subscription period, the subscriber shall be entitled to subscribe for any number of shares he/she/it elects. In case the total number of subscribed shares is less than the offered shares (i.e. remaining shares from the period of pre-emption right), the subscribed shares will be allocated in full. In case the number of subscribed shares is more than the number of offered shares (i.e. remaining shares from the period of pre-emption right), shares will be allocated to subscribers pro-rata with the number of additional remaining shares to the total number of subscribed shares. The number of shares allocated will be rounded to the nearest whole number. The Issuer reserves the right to dispose off the fractions of shares at its sole discretion.

The issuer shall announce the final allocation of issue shares within five (5) business days from the subscription closing date and refund any excess subscription amounts to the relevant Subscribers after allocation of the Issue Shares without any profits, commissions, fees or withholding by the issuer.

It should be noted that no confirmations, representations or guarantees are given that there will be any available additional shares.

Refund Amounts to Subscribers

The Subscription amounts for declined applications and subscription surplus shall be refunded without profit, fees or deductions within five (5) working days from the announcement of the allocation results by means of a bank transfer to the designated account stated in the subscription application.

In the event of cancellation of the subscription in full or in part, the Bank shall deposit any Subscription amounts in a non-profit-bearing account with the Bank until the repayment of such amounts to subscribers following the approval of the Ministry of Commerce and Industry.

Convertibility of Issue shares

The Issue Shares may not be converted into another form of securities.

Tradability of the Issue shares

A statement of Issue Shares will be made and the Issue Shares will be listed on Boursa Kuwait following the close of the Offering Period, the final allocation of the Issue Shares and completion of all the necessary regulatory procedures. Issue shares will be traded without any restrictions same as Existing Shares.

Expected Timetable

Event	Date
Subscription commencement date for exercising pre-emption right	21st April 2019
Subscription close date for exercising pre- emption right	5th May 2019
Public Subscription commencement date for surplus shares unsubscribed by eligible shareholders	12th May 2019
Subscription Close date	23rd May 2019
Allocation of Issue shares	Within five (5) working days from the subscription closing date
Refunding subscription amounts to subscribers	Within five (5) working days from the subscription results announcement date
Trading issue shares in Kuwait Stock exchange	Will be listed in Kuwait Stock Exchange following completion of all necessary regulatory procedures.

Basis of calculation of share price and premium

The Bank has appointed an independent firm approved by the Capital Markets Authority to assess the fair value of the net equity of Boubyan Bank K.S.C.P. for the purpose of share capital increase and for submitting an independent report to the Capital Markets Authority.
Several valuation methods have been used such as Discounted Cash Flow Model “DCF”s, Relative Valuation Approach - Market Multiple, price comparison and discounting distributed profits. Adjusted Net Asset Valuation using the audited financial statements of the Bank, Management historical information for past years from 2013 to 2018, as well as projected financial information prepared by Boubyan Bank for the years from 2019 to 2023 and information in the public domain from reliable third-party sources.
These methods are summarized as follows:

1. Discounted Cash Flow Model (DCF)
2. Market Comparison - Price / Book Value (P/B) Multiple
3. Adjusted Net Asset Valuation (NAV)

The Use of Proceeds

The capital increase proceeds will be used for the following objectives:

- Enhancing the capital base and reinforcing the robustness of the bank’s financial position.
- Keeping pace with the bank’s leadership status in funding vital projects.
- Enhancing the bank’s ability to generate revenues for its shareholders.

Information about the Issuer

Overview

Name of the Issuer	Boubyan Bank K.S.C.P
Legal Structure of the Issuer	Kuwaiti Shareholding Company, Public
Address of the Bank's Headquarter	Qibla, Kuwait City, Abu Baker Al Sadiq Street, Al Hamad Tower no. 3
Postal Address	P.O. Box 25507, Safat 13116, State of Kuwait.
Incorporation Date & Domicile	21st September 2004 – Kuwait
Issued and Paid up Capital	**KD 250,789,518/300** (KD two hundred fifty million, seven hundred eighty nine thousand five hundred eighteen and three hundred fils)
Legislation Under which the Bank is Incorporated	Boubyan Bank was established by the Kuwait Investment Authority (KIA) acting on behalf of the government of the state of Kuwait & PIFSS (K.S.C.P.) as per the provisions of the Commercial Companies Law no. 15 of 1960 as amended and Law No. 32 of 1968 concerning Currency, the Central Bank of Kuwait and the Regulation of the Banking Business as amended and Law No. 30/2003 adding a special section for Islamic Banks to Chapter (3) of Law No. 32/1968. On 21st September 2004, the Amiri Decree no. 88 of 2004 was issued licensing the establishment of a Kuwaiti shareholding company under the name "Boubyan Bank", a Kuwaiti shareholding company, as per the provisions of the Companies Law no. 15 of 1960, which was subsequently repealed and replaced with the Companies Law no. 25 of 2012, which was subsequently repealed and replaced with Law no. 1 of 2016, as amended, and its Executive Bylaws and Law no. 32 of 1968 concerning Currency, the Central Bank of Kuwait and the Regulation of the Banking Business as amended and Law No. 30/2003 adding a special section for Islamic Banks to Chapter (3) of Law No. 32/1968, as amended. The Bank was officially enrolled in the Central Bank of Kuwait's Register of Islamic Banks on 30th November 2004
Legislation Under which the Bank Conducts Business	Currently the Bank operates under: • Law No. 1/2016, as amended, its Executive Regulations; • Law No. 32 / 1968 concerning Currency, the Central Bank of Kuwait and Organization of the Banking Business, as amended; • Law No. 30/2003 adding a special section for Islamic Banks to Chapter 3 of Law No. 32/1968 concerning Currency, the Central Bank of Kuwait and Organization of the Banking Business, as amended; and, • Law No. 7/2010 Concerning the Establishment of the Capital Markets Authority and Regulating Securities Activities and its Executive Bylaws, as amended.

Description of the Issuer’s main activities and any further exceptional factors of substantial effect on these activities

CONSUMER BANKING GROUP “CBG”

The Consumer Banking Group (the “CBG”) provides a wide range of products and services to retail customers including consumer & installment finance, credit cards, deposits, and many other branch services.

During 2018, the CBG achieved significant growth in its credit portfolio while providing many new services via various banking channels such as the website, the internet, mobiles, and ATMs. These services were well-received by the local market, and this led to growth in the group’s revenues along with expansion of the bank’s customer base.

In 2018, the bank’s branch network reached 42 branches with a plan to open more branches in 2019. Additionally, the bank provided many creative solutions which make the Bank’s various banking services available 24/7 to the customers wherever they are, whether be at some prominent malls in Kuwait or some branches. Also the, serves its customers all around Kuwait through Boubyan Direct machines which do not only provide the usual banking services such as account-opening, card issuance, of finance applications, but also include additional services such as the issuance of Salary Transfer Certificates, which has been added as a new service during the year.

As creativity and innovation are primary pillars in Boubyan’s business model, Boubyan Bank has kept up in 2018 the steadfast effort of strengthening innovation and customer services. For being constantly a step-ahead in the market, Boubyan Bank continued introducing new innovative banking products and services as well as enhancing existing ones.

Boubyan Bank has also maintained its high standards in providing customers with easily accessible and innovative products designed to their comfort and convenience and available on digital and traditional platforms. Our diligence, perseverance and dedication enabled the accomplishment of high customers’ satisfaction possible.

Boubyan Bank launched “Msa3ed” as a distinguished innovative product in 2018. “Msa3ed” is a new interactive Chabot service available through Boubyan Application introduced for the first time in Kuwait and designed to assist customers in processing digital transactions faster and easier.

In addition to “Msa3ed”, Boubyan Bank succeeded in launching various banking products and services, including but not limited to:

- New digital services on Boubyan App and Boubyan Direct
- New Business Banking Solutions
- New finance products, such as health finance and education finance

The meticulously planned and perfectly executed efforts were rewarded with various awards that marked another milestone in Boubyan’s journey of success. This includes winning the “Best Islamic Digital Bank” Awards in Middle East and Kuwait, and the “Best Innovative Digital Bank” Award from Global Finance for the year 2018.

The social media played an important role in interacting with the bank’s customer base by launching awareness campaigns about the customer’s banking rights upon opening an account or in its transactions using credit cards as well as increasing the awareness about deposits and many other awareness campaigns.

In addition to leading innovative digital banking products and services, Boubyan Bank focused on the customer experience and customer satisfaction by continuously upgrading the level of services offered to the customers and unifying all the communication with the customers through all the channels.

Hence, Boubyan managed to stay as the best bank in Kuwait Banking Industry in the field of customer services. This is evidenced by the recent accomplishments, whereby the Bank won the “Best Islamic Bank in Service Level” Award in Kuwait from the Service Hero for the eighth year in a row and "Best Bank in Customer Satisfaction and Loyalty" Award for the third year in a row. Such awards reiterate our Bank's superb competitive abilities to provide customers with the highest level of services and the best products in the Kuwaiti market.

The bank now has 248 ATMs in both branch and off-site locations. The off-site ATM work has expanded with a focus on heavy footfall locations. This network, in spite of the low ATM fee structure in Kuwait, now produces a positive revenue stream for the group.

CORPORATE BANKING GROUP ("CBG")

The Corporate Banking Group provides Murabha, Ijara, trade services and many other services to corporate clients.

Boubyan Bank is aspiring to be "the First Choice and the Preferred Bank for Corporate Banking". Hence, we succeeded in launching remarkable and innovative e-products and services, which we introduced for the first time to the local corporate sector in response to the Bank's aspiration to meet all the banking needs and requirements in line with the principles of the Noble Islamic Sharia.

The Corporate Banking Group managed to obtain a competitive and leading position among other banks in the local market. The Bank also jointly participates with other local banks in syndication deals. The Corporate Banking Group provides special services to its corporate clients including Murabaha, Ijara, trade services and many other services.

In view of the current rapid technological development, the Corporate Banking Group achieved a great deal of success in launching numerous projects in 2018, such as:

- Updating the Corporate Online Banking platform.
- Launching an integrated Customer onboarding account-opening booklet.
- Launching a digital Credit Approval Workflow.

The Corporate Banking Group increased its market share by 0.7% in 2018 to reach 7.3%. This was done by developing strong relationships with a number of active national companies while targeting performing businesses in various productive economic sectors in order to provide the best banking services. The corporate structured finance team had splendidly succeeded during 2018 as Initial Mandate Lead Arranger and Book Runner on several high profile Islamic deals in the region.

The Corporate Banking Group managed to achieve remarkable growth in its credit portfolio, with a growth rate of 17% during 2018. We have achieved this growth by attracting a number of prime companies, which are well-known for their financial and economic creditworthiness, without compromising the highest credit quality standards. It is worth mentioning that the growth achieved during 2018 was made through diversifying the financing to various economic sectors, while giving a preference to the aviation, oil, education, and other services; and maintaining the quality of assets as per the best banking risk management practices.

The Corporate Banking Group is responsible for providing financing and credit services to Boubyan Bank corporate and high net-worth individual customers. Our implemented 5-year strategy is designed to secure strengthening our relations with existing customers and acquiring new profitable credit relationships.

Throughout 2018, the Corporate Banking Group succeeded in achieving significant growth in credit portfolio through targeting vital diversified sectors in the domestic market, striking the targeted balance between the granted cash and non-cash facilities while maintaining low risk levels. This has positively affected the year end results.

Boubyan Bank's Corporate Banking Group managed since inception to have a niche market position among other banks in the market place, to act as strong competitor and to participate in a number of syndications with leading local banks.

The current five-year strategy, which is already underway, reflects the vision of the Corporate Banking Group towards enhancing and developing the group's relationship with the existing customers towards creating and acquiring new profitable credit relationships. In line with that, the

Corporate Banking Group developed and provided many new services and products in line with the above product-diversification plan including:

- The working capital finance product to cater for the short term financing needs,
- The segmented Ijara product which made it easy to have access to financing as per segments.
- The flexible Murabaha product.
- Letter of credit Murabaha product.
- Equipment and machinery Murabaha.
- Digital Murabaha.
- Online banking services.
- Corporate mobile banking services.
- Payroll e-upload.
- Digital commercial financing services.

TREASURY GROUP

The Treasury Group provides its money market services to local and international banks in KD and other primary currencies in addition to providing the necessary funds to fund the bank's operations. This group is responsible for the bank's asset and liability management in terms of managing the bank's liquidity and the regulatory ratios regulating the same in line with CBK instructions and policies as well as the internal policies for managing the liquidity risk in the foreign exchange market, and the money markets to ensure the Bank operated optimally and within the mandated regulatory limits. The latter half of 2017 saw the department embarking on ensuring the bank's compliance with the CBK's Net Stable Funding Ratio which came into effect on 1 January 2018.

In 2016 the Group played an instrumental role in the bank's successful debut in the Sukuk market with the issuance of USD250.0 mil. Perpetual Tier -1 Sukuk. While in 2018, foreign exchange volume was at a record allowing the bank to register its highest ever FX profits while deposits increased by more than 9%.

In line with the bank's Strategy, the Treasury did extensive work to gear up its capabilities through the introduction of new products. This included the bank's Sharia-compliant Wa'ad-based FX Forward product to enable the bank's customers to hedge their future known FX commitments and negate the effects of market volatility on their cash flow and income, Profit Rate Swaps to hedge market risk and Collateralized Murabaha to enhance liquidity. These new products are aimed at supporting the bank's ability to offer her customer's cutting edge solutions in support of their business needs.

Factors with substantial effect on the bank's activities

- The business of the bank and its subsidiaries, i.e., Boubyan Takaful Insurance Company K.S.C.C & Boubyan Capital Investment Company K.S.C.C. (the "Group"), and the group's financial position and business results, are influenced by the international and regional financial markets as well as the economic conditions. Any deterioration in the economic conditions of Kuwait, the Middle East & North Africa may gravely influence the group in a negative way.

- The fluctuations of the international oil prices and the steep decline in these prices may significantly influence the group's business results negatively.

- The Bank's credit risk exposure with respect to the financing portfolio is concentrated in the real estate sector; any negative news or slowdown in this sector may significantly impact the bank's profitability, the business volume and credit profile.

- Increase in the percentage of non-performing financial assets arising from the financial transactions for retail and corporate customers which may lead to the deterioration of the bank's credit portfolio as a whole as well as the ability to extend more financing to existing and new customers.

- The Bank is subject to the risk that liquidity may not always be readily available or may only be available at costs which may adversely affect its business or the results of its operations. Liquidity risk involves the inability of the group to fulfill its obligations, including finance obligations, upon their maturity. This risk is represented in banking operations, and it may increase due to a number of special factors related to commercial establishments including over-reliance on a special financing source such as short-term finance, changes in credit ratings in the market such as market chaos and disasters.

Statement of specific clients or suppliers and patents, intellectual property rights, licenses or special contracts which have a major significance in the Issuer's activity

Nothing in particular

Information about the Issuer's current investments, if any, and their relevant risks

- **Key Operational Subsidiaries**

Name of company	Principal activities	Country of incorporation	Effective shareholding
Boubyan Takaful Insurance Company	Takaful insurance	Kuwait	79.49%
Boubyan Capital Investment Company	Islamic investments	Kuwait	99.76%

- **Key Operational Associates**

Name of company	Principal activities	Country of incorporation	Effective shareholding
Bank of London and the Middle East ("BLME")	Islamic Banking	United Kingdom	26.44%
United Capital Bank	Islamic Banking	Republic of Sudan	21.67%
Saudi Projects Holding	Real Estate	Kuwait	25.02%

- **Other Investments**

Type of Investment	Sector	Geography
Investment Properties	Real estate	Kuwait, UAE, Europe
Equity Securities	Real estate, financial institutions, banking services	Kuwait, KSA, Qatar, UAE, Bahrain and Indonesia
Funds & Portfolios	Real estate, equipment leasing, money market	Kuwait, KSA, Cayman Islands
Sukuk	Banks, energy, financial institutions, Government, real estate, petroleum & other services	Kuwait, UAE, Bahrain, Qatar, KSA, Turkey, Oman, Indonesia, Malaysia, Hong Kong

Risks associated with various types of investment

- The Bank could be adversely affected by market risks that are beyond its control, including, without limitation, volatility in prices of securities, currency exchange rates and profit rates.
- The Bank is exposed to profit rate risk as the value of the Bank's fixed income investments and/or return on financing are inversely related to rising profit rates, particularly where the Bank's liabilities are short in tenor and are subject to market rate conditions.
- The Bank is exposed to the risk that liquidity may not always be readily available or may only be available at costs which may adversely affect its business. Liquidity risk involves the inability of the Bank to fund increases in assets, manage unplanned changes in funding sources and to meet obligations when required. The cost of such liquidity risk would be in terms of either raising fresh liabilities at higher cost or liquidating its assets at a higher discount rate.
- The Bank maintains a portfolio of equity securities. Any changes in the fair value of these securities, for instance, as a result of changing equity prices have an impact on the Bank's equity and profitability.

Information about claims, judicial actions or arbitration procedures, whether considered, suspended or alleged to be taken against the Issuer or any of its Subsidiaries, which may have substantial effect on its financial position.

Nothing in particular

Basic information about all the main contracts of the Issuer or the Issuer's Subsidiaries within the two years preceding the date of applying for approval on the Prospectus and the parties of these contracts, provided that routine contracts entered into within the ordinary course of the Issuer's business are not included.

Nothing in particular

Number and details of any Securities previously issued by the Issuer

CAPITAL INCREASE IN 2010

As per the decision of the Extraordinary General Assembly Meeting held on October 1st 2009, and by virtue of the Amiri Decree no. (398) of 2009, it was approved to increase the bank's capital from KD 116,000,000 (One hundred & sixteen million Kuwaiti Dinars) to KD 174,900,000 (One hundred seventy-four million and nine hundred thousand Kuwaiti Dinars) at a nominal value of 100 (a hundred) fils per shares and a premium of 155 (one hundred fifty-five) fils per share.

BOUBYAN BANK TIER I 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.

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

Issuer	Boubyan Tier 1 Sukuk
Obligor	Boubyan Bank K.S.C.P.
Currency / Format	USD / Fixed Rate
Status	Subordinated Tier 1 Capital Certificates
Obligor Rating	A3 (Moody's) / A+ (Fitch)
Issue Rating	Unrated
Amount	USD 250 million
Pricing Date	May 10th 2016
Issuer Call Date	May 2021 (first call date) or any date fixed for profit payment as per payment terms
Coupon	6.75% per annum till the first call date thereafter the expected profit rate will be fixed again based on the profit rate then prevailing for the US Mid Swap Rate plus initial margin of 5.588% per annum.
Listing	Irish Stock Exchange, NASDAQ Dubai
Governing Law	English Law

Brief description of the Group of which the Issuer is a member, if any, and the place occupied accordingly in such Group.

Boubyan Bank K.S.C.P. is a subsidiary of the National Bank of Kuwait K.S.C.P. ("NBK").

NBK was established in 1952 and it provides banking, financial and investment services to its retail and corporate clients.

Statement of the shareholders having 5% or more of the issuer's share capital

The following schedule demonstrates key shareholding structure as at December 31st 2018.

NAME	DISCLOSURE TYPE	PERCENT (%)
National Bank of Kuwait	Direct & Indirect	59.15%
Commercial Bank of Kuwait	Direct	11.19%

Statement of the Issuer's dividends over the past five years

First: Dividends – Bonus Shares

Description	2014	2015	2016	2017	2018
Percent %	5%	5%	5%	5%	5%
Amount	9,825,007.500	10,316,257.800	10,832,070.700	11,373,674.300	11,942,358.000

Second: Dividends – Cash

Description	2014	2015	2016	2017	2018
Percent %	5%	5%	6%	7%	8%
Amount	9,815,355.000	10,307,306.000	12,974,335.000	15,899,882.000	19,091,552.000

Brief description of the transactions carried out or to be carried out by any Related Parties.

Related party transactions reported in the Bank'sconsolidated balance sheet as of 31 December 2018 are as follows:

	Number of board member or executive officers	Number of related parties	2018
			KD'000's
Islamic financing to customers	**7**	**2**	**5,157**
Depositors' accounts	**5**	**9**	**3,028**
Islamic financing income			**231**
Finance cost and distribution to depositors			**(87)**

Parent Company			
Due from banks			**43,139**
Due to banks			**59,140**
Islamic financing income			**1,617**
Finance cost and distribution to depositors			**(664)**

Board of Directors Information:

A. Names and positions of the members of the Issuer's Board of Directors or of the Board of the entity managing the Issuer

Sr.	Name	Position
1.	Mr. Mahmoud Yousef Al-Fulaij	Chairman
2.	Mr. Adel Abdul Wahab Al Majed	Vice-Chairman & Chief Executive Officer
3.	Mr. Abdulaziz Abdullah Al-Shaya	Director
4.	Mr. Adnan Abdullah Al-Othman	Director
5.	Mr. Mohammed Yousef Ahmed Al-Saqer	Director
6.	Mr. Waleed Ibrahim Abdul Rahman Al Asfour	Director
8.	Mr. Hazim Ali Al-Mutairi	Director
7.	Mr. Waleed Abdullah Ibrahim Al Houti	Director
9.	Mr. Waleed Mishari Al-Hamad	Director

B. Number and class of Shares owned by each Member of a Board of Directors of the Issuer in the Issuer's capital

S.	Name	Number of Shares	Class of Shares
1.	Mr. Mahmoud Yousef Al-Fulaij	102,419	Ordinary Shares
2.	Mr. Adel Abdul Wahab Al Majed	336,028	
3.	Mr. Abdulaziz Abdullah Al-Shaya	174,770	
4.	Mr. Adnan Abdullah Al-Othman	85,514	
5.	Mr. Mohammed Yousef Ahmed Al-Saqer	75,000	
6.	Mr. Waleed Ibrahim Abdul Rahman Al Asfour	75,000	
7.	Mr. Hazim Ali Al-Mutairi	136,560	
8.	Mr. Waleed Abdullah Ibrahim Al Houti	1,157,625	
9.	Mr. Waleed Mishari Al-Hamad	102,419	

C. Resume of each present member of a Board of Directors of the Issuer and the nature of any family relationships between them

Mahmoud Yousef Al-Fulaij Chairman (Non-Executive) **Year of joining: 2010**	**Skills and Experience:** Mr. Al-Fulaij is a well-known businessman in Kuwait with more than 37 years of experience; he manages two general trading and contracting companies in Kuwait. He graduated with a bachelor's degree in Business Administration from the United States of America in 1980. **Other current posts:** • Board Director – Arcadia Real Estate Company, KSCC (Kuwait)
Adel Abdul Wahab Al-Majed Vice-Chairman & Chief Executive Officer (Executive) **Year of joining: 2010**	**Skills and Experience:** Mr. Al-Majed joined Boubyan Bank in August 2009, and has more than 37 years of banking experience. He worked previously for the National Bank of Kuwait (NBK) where he held leadership positions, including Deputy Chief Executive Officer and General Manager - Consumer Banking Group. Mr. Al-Majed graduated from the University of Alexandria with a bachelor's degree in accounting, and attended various executive management development programs at various universities, including Harvard, Wharton and Stanford. **Other current posts:** • Chairman – Boubyan Capital Investment Company, KSCC (Kuwait) • Chairman – Bank of London & the Middle East (UK)
Abdulaziz Abdullah Al-Shaya Director (Non-Executive) **Year of joining: 2009**	**Skills and Experience:** Mr. Al-Shaya is a well-known businessman with more than 40 years of experience in trading and real estate sectors; he manages a trading company in Kuwait. Mr. Al-Shaya holds a bachelor's degree in Economics from Kuwait University. **Other current posts:** • Vice Chairman–Awtad Real Estate Company, KSCC (Kuwait) • Vice Chairman – Orient Education Services Company, KSCC (Kuwait) • Board Director–Mabanee Company, KPSC (Kuwait) • Vice Chairman – Enemaa Real Estate Company (Oman)

Adnan Abdullah Al-Othman Director (Non-Executive) **Year of joining: 2016**	**Skills and Experience:** Mr. Al-Othman is a well-known businessman with more than 40 years of experience in banking and real estate sectors; he owns a real estate company. Mr. Al-Othman holds a bachelor's degree in Industrial Engineering from Syracuse University - USA. **Other current posts:** • Member of the Trustees of the Estate of the Late Abdullah Abdulatif Al-Othman (Kuwait). • Member of the Executive Committee for the Implementation of the Charity Projects of the Late Abdullah Abdulatif Al-Othman (Kuwait)
Mohammed Yousef Ahmed Al-Saqer Director (Non-Executive) **Year of joining: 2019**	**Skills and Experience:** A well-known businessman with more than 30 years of business experience, he is the co-manager of two commercial companies in Kuwait. He holds a Bachelor's degree in Public Administration from Point Park College in the United States of America.
Waleed Ibrahim Abdul Rahman Al Asfour Director (Non-Executive) **Year of joining: 2019**	**Skills and Experience:** He has more than 35 years' experience in the real estate and financial sector, and runs a real estate company and investment company in Kuwait. He has Bachelor of Business Administration - Finance from Kuwait University. **Current Positions:** • Vice Chairman of Al-Wodouh Capital Holding Company KSCC. (Kuwait). • Member of the Board of Directors of Shurooq Medical Services Company KSCC (Kuwait).
Hazim Ali Al-Mutairi Director (Non-Executive) **Year of joining: 2010**	**Skills and Experience:** Mr. Al-Mutairi has a diversified experience for more than 26 years in the fields of financing, investment, and banking. He is currently the CEO of Credit One Kuwait Holding Company. He graduated from the United States of America with a bachelor's degree in Finance. **Other current posts:** Board Director – Warba Insurance Company, KPSC (Kuwait) Board Director – Idafa Holding Company, KSCC (Kuwait)
Waleed Abdullah Ibrahim Al Houti Director (Non-Executive) **Year of joining: 2019**	**Skills and Experience:** Mr. Al Houti has more than 37 years of experience in financial and petroleum services. He is currently the Chairman of the Board of Directors of a Kuwaiti joint stock company specialized in the field of investment in petroleum services. He has a Bachelor of Business Administration - Finance from Kuwait University. **Other current posts:** Chairman of the Board of Directors of Al dura Petroleum Services Company KSC (Kuwait).

	Vice Chairman of Saudi Oil & Gas Services Company (Saudi Arabia).
Waleed Mishari Al-Hamad Director (Non-Executive) **Year of joining: 2010**	**Skills and Experience:** Mr. Al-Hamad has more than 28 years of experience, including 11 years in banking and the remaining in the investment sector; he is the Managing Director of a holding company in Kuwait. Mr. Al-Hamad possesses a bachelor's degree in Economics, and a master's degree in Finance from the United States of America. **Other current posts:** Board Director and CEO – Helvetia Arab Holding Company, KSCC (Kuwait)

Note: There are no family relations among the Members of the Board of Directors.

D. Statement of Committees occupied by Members of a Board of Directors of the Issuer.

Board Management Executive Committee	Adel Abdul Wahab Al-Majed Hazim Ali Al-Mutairi Waleed Ibrahim Abdul Rahman Al Asfour Waleed Abdullah Ibrahim Al Houti
Board Nomination & Remuneration Committee	Waleed Mishari Al-Hamad Abdulaziz Abdullah Al-Shaya Mohammed Yousef Ahmed Al-Saqer Hazim Ali Al-Mutairi
Board Governance Committee	Mahmoud Yousef Al-Fulaij Adel Abdul Wahab Al-Majed Abdulaziz Abdullah Al-Shaya Hazim Ali Al-Mutairi
Board Audit Committee	Adnan Abdullah Al-Othman Waleed Mishari Al-Hamad Mohammed Yousef Ahmed Al-Saqer
Board Risk & Compliance Committee	Waleed Mishari Al-Hamad Adnan Abdullah Al-Othman - Member Mohammed Yousef Ahmed Al-Saqer

E. The financial and in-kind benefits awarded to the members of the Issuer's Board of Directors or of the Board of the entity managing the Issuer during the financial year preceding the application for the approval of the Prospectus, and the estimated value of the benefits intended to be awarded to them in the financial year of subscription.

The total amount incurred for the members of the Board of Directors for the year ended 31st December 2018 was **KD 360,000**. It is expected to remain the same amount for 2019.

F. Members of the Executive Management.

Name	Title	Years of Experience	Nationality	Education
Adel Abdul Wahab Al Majed	Vice-Chairman & Chief Executive Officer	More than 37 years	Kuwait	Bachelor's
Abdulla Al-Najran Al-Tuwaijri	Deputy Chief Executive Officer	More than 30 years	Kuwait	Bachelor's
Abdul-Salam Mohammed Al-Saleh	Deputy Chief Executive Officer	More than 31 years	Kuwait	Bachelor's
Waleed Khalid Al-Yaqout	General Manager - Administration Group	More than 37 years	Kuwait	Bachelor's
Adel Abdullah Al Hammad	General Manager - Human Resources Group	More than 35 years	Kuwait	Bachelor's
Ashraf Abdallah Sewilam	General Manager - Corporate Banking Group	More than 25 years	Egypt	Bachelor's
Neven Raic	General Manager - Consumer Banking Group	More than 26 years	Germany	Master's
Abdul Rahman Hamza Mansour	General Manager - Internal Audit	More than 35 years	Egypt	Bachelor's
Mohamed Ibrahim Ismail	General Manager - Financial Control Group	About 23 years	Egypt	Master's
Maged Fanous	Chief Risk Officer General Manager - Risk Management	More than 31 years	U.K.	Bachelor's
Adel Rashed Al-Mutairi	Assistant General Manager - Treasury Services	More than 15 years	Kuwait	Bachelor's
Jabra Raja Ghandour	Chief Executive Officer Boubyan Capital	More than 33 years	Jordan	Master's

Risk Factors

Credit Risks

Credit risk is the risk of the possibility that any customer or counterparty fails to meet its contractual obligations, leading to default/financial loss. These risks arise in the normal course of the group's business, principally from the Bank's receivables resulting from the Islamic financing extended to customers.

The Bank's Board has approved financing and investment policies for various business groups and investment asset types. The Risk Management Group provides independent opinion and assessment of risk for every financing and investment that is proposed and presented to the approving authorities for decision making. In addition, the Bank endeavours to manage credit exposures by obtaining collaterals where appropriate and limiting the tenor of exposure in a manner that is beneficial to the overall credit risk profile of the Bank.

The approach to credit risk is based on the foundation to preserve the independence and integrity of the credit risk assessment, management and reporting processes, combined with clear policies, limits and approval structures which guide the day-to-day initiation and management of the Bank's credit risk exposure. This approach comprises credit limits which are established for all customers after a careful assessment of their credit worthiness.

Standing procedures, outlined in the Bank's Credit Policies and Manuals, require that all credit proposals be subjected to detailed screening pending submission to the appropriate credit committee. Whenever necessary, credit facilities are secured by acceptable forms of collateral to mitigate the related credit risks. The Board of Directors defines the Bank's credit risk management strategy and approves credit risk policies to ensure alignment of the Bank's exposure with its Risk Appetite.

Credit risk management structure and governance

Senior management implements the Board of Directors' credit risk strategy and develops policies and procedures for identifying, assessing, monitoring and controlling credit risk.

The Bank's Credit Committee, chaired by the Bank's CEO and comprising senior executives from the business divisions, meets regularly and reviews the Bank's financing portfolios and advises the Board appropriately.

In compliance with CBK regulations, financing to individual Board Members and related parties is fully secured and monitored by the Board Executive Committee. Additionally, such transactions are made on substantially the same terms, including profit rates and collateral, as those applicable at the time for comparable transactions with unrelated parties. All such facilities are approved by the Board of Directors in line with the relative authorities from the Shareholders' General Assembly.

Country limits are determined based on the outlook of economic and political factors, along with the review of reports by rating agencies on the country (where available) and application of local business and market knowledge. Country limit exposures are subject to periodic approval by the Board of Directors or the Board Executive Committee.

Risk Management Operations

Key features of corporate credit risk management

- Credit facilities are granted based on detailed credit risk assessments which consider the purpose of the facility and source of repayment, prevailing and potential macro-economic factors, industry trends and the customer's positioning within its industry peer.
- Internal credit-rating models are regularly reviewed by the Bank's risk management function in co-ordination with line management and the Management Credit Committee and continually enhanced in line with industry credit risk management "best practices".
- All new proposals and / or material changes to existing credit facilities are reviewed and approved by either the Board Executive Committee or the Management Credit Committee.
- The credit facility administration process is undertaken by a segregated function to ensure proper execution of all credit approvals and maintenance of documentation, and proactive control over maturities, expiry of limits, collateral valuation and contractual covenants.

Key features of retail finance risk management

- Oversight of retail finance risk is undertaken by an independent unit directly within Bank Risk Management in cooperation with the Consumer Banking Group. Within this framework, limits and approval authorities are exercised by officers with defined approval authorities.
- Retail finance risk management functional areas are aligned with key concepts of risk management, namely, governance, control, measurement and reporting.
- Retail finance risk is managed with three lines of defence. As a first line of defence, the retail finance group (i.e., granting) is responsible for adherence to CBK's credit policies, controls and processes. As a second line of defence, the retail finance risk management team, working independently of the business unit, assesses and ensures implementation of credit risk management policies and procedures. As a third line of defence, the Internal Audit function, independently tests, verifies and evaluates controls for effective credit risk management and implementation of policies & procedures.
- All significant financing policies and amendments to policies are reviewed annually by the Management Executive Committee and approved by the Board.
- Retail finance risk assessment for applicants including CBK regulatory guidelines and the Bank's retail finance policies, such as debt-to-income ratio, minimum qualifying income and limits on advances by product type. Additional inputs utilised include applicant characteristics obtained from the Credit Information Network in Kuwait, to assist in assessing an applicant's ability to repay and the probability of default. These reports are reviewed and edited continually.

Bank's credit risk monitoring

The Bank's exposures are continuously monitored through a system of triggers and early-warning signals aimed at detecting adverse symptoms which could result in deterioration of credit risk quality. The triggers and early-warning systems are supplemented by facility utilisation and collateral valuation monitoring together with a review of upcoming credit facility expiration and market intelligence to enable timely corrective action by management. The results of the monitoring process are reflected in the internal rating process.

Credit risk is monitored on an ongoing basis with formal monthly and quarterly reporting to ensure senior management awareness of shifts in credit quality and portfolio performance along with changing external factors such as economic and business cycles.

A specialised and focused team for deciding on non-performing loans handles the management and collection of non-performing credit facilities.

Bank's credit risk mitigation strategy
Portfolio diversification is the cornerstone of the Bank's credit risk mitigation strategy which is implemented through customer, industry and geographical limit structures.

To ensure diversification at the portfolio level, interrelated companies with the same management or ownership structure are classified and treated as one entity. The Risk Appetite requires that the Bank limits its financing concentration per entity to specific percentage of the regulatory capital.

Credit risk mitigants such as collateral and guarantees are effective mitigating factors within the Bank's portfolio and collateral quality is continuously monitored and assessed. Risk transfer in the form of syndications and risk participation arrangements with other banks are used to manage the Bank's exposures.

Management of credit collateral and valuation
The main types of collateral accepted by the Bank include:

1. Cash collateral
2. Equity shares
3. Bank guarantees
4. Real estates
5. Sovereign debt instruments
6. Bank debt instruments
7. Collective investment schemes

In accordance with the Bank's credit policies, banks and creditworthy companies and individuals with high net worth are accepted as guarantor counterparties, subject to credit risk assessment. Furthermore, in accordance with the CBK Basel framework, cash collateral, quoted shares, real estates, debt instruments of sovereigns and banks and collective investment schemes are recognised as risk mitigation for capital adequacy purposes.

The custody and daily "mark to market" (revaluation) of financial collateral, inclusive of shares, are performed independent of the business units. Real estate collateral is valued on an annual basis.

Lending base concentration risk
Although diversified by industry sector, the Bank's credit risk exposure with respect to financing is concentrated in consumer and installment loans which stand at 35%, followed by the real estate sector which stands at 22% of the total credit risk exposures as at the end of 2018

Out of total credit risk exposure, the Middle East contributes 96% while Asia contributes 2.8% as at the end of 2018.

The bank's largest 20 financing clients with outstanding financing represent 23.40% of the total of the customer financing portfolio as at 31st December 2018.

Deposit base concentration risk
The Bank largely depends on the customer deposits to meet most of its finance needs (deposits of individuals, corporate, government and non-banking financial institutions). The Bank's 25 largest deposits as at 31 December 2018 constituted 49.4% of its total customer deposits. The withdrawal or non-renewal of its deposits by any one or more of the Bank's large depositors could require the Bank to obtain replacement funding from other sources which may not be readily available or may be significantly more expensive, which would reduce the Bank's net profit margin and adversely impact its operating income and profitability.

Market risks

Market risks are the risks of fluctuated asset values due to the changes in market prices. Market risk may arise from open positions in foreign currencies and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market or prices such as foreign exchange rates and equity prices.

The Bank's market risk framework includes limits monitoring to ensure that the Bank does not exceed the regulatory parameters set by CBK as well as the internal limits of the bank. The Bank also performs mark-to-market valuation based on independently published market data, and continuous review of all open positions. The policies and procedures and market risk limits are periodically set and reviewed to ensure the implementation of the Bank's market risk appetite.

Foreign exchange risks

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.

Liquidity risks

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 formed 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.

Operational risks

Operational risk is the risks 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.

Operational risks arise owing to fraud, staff errors or failure to documents transactions in a proper manner or to obtain the proper internal authorization as well as failure to comply with the regulatory requirements or regulations and systems or equipment's failure (especially IT failures, natural disasters, or failure of external systems, for instance, with counterparties or the group's vendors). Therefore, the group has implemented risk-control and loss-reduction strategies. Huge resources are dedicated to develop effective measures and to train the staff. Nevertheless, it is impossible to entirely eliminate all potential operational risks faced by the group. Losses arising from the failure of internal controls may lead to an adverse effect on the group's business, financial standing, and the results of its operations, thus, influencing the reputation of the group negatively. 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.

The Bank has established its business continuity management policy to meet any internal or external failures and eventualities enabling smooth functioning of the Bank's operations. The Bank has established a disaster recovery site for its IT infrastructure, to ensure that operational risks do not adversely impact the Bank's business.

Capital adequacy

The Bank actively manages its capital with the objective of maintaining adequate levels in order to cover all risks inherent in the business. The capital base is assessed to support the current and future growth of the business and the capital allocation is determined on the basis of financing and investments growth expectations for each business lines. The Bank is currently operating well above the minimum regulatory capital ratios, with ability to cover any eventuality and intervene at an early stage in situation of any stress. The business growth forecast is based on available capital, as allocated for different business lines to ensure that the Bank's internal capital targets are consistent with the approved Risk Appetite of the Bank to maximize shareholders' value (on risk-adjusted basis).

As at December 31st 2018, the Bank's Tier 1 (T1) capital adequacy ratio (calculated according to Basel III standards) was 17.05 % and its total capital adequacy ratio was 18.19%; in each case above, the levels required by the CBK as at that date were 11.5 % (T1 capital) and 13.5 % (total capital adequacy ratio) respectively. A variety of factors may affect the Bank's capital adequacy levels. For example, an increase in lending during 2018 and beyond is likely to reduce the Bank's capital adequacy ratios further. In addition, the capital adequacy and required levels of capital adequacy may change from time to time including as a result of new guidelines issued by the Basel Committee on Banking Supervision.

Credit ratings

Moody's Credit Ratings:

Long-Term Deposit Ratings: A3, with a stable "Outlook"

Short-Term Deposit Rating: "P-2"

Baseline Credit Assessment: "Ba1"

Fitch's Credit Ratings:

Long Term IDR: A+, with a stable "Outlook"

Short-Term IDR: F1

Viability Rating: BBB-

Support Rating (SR): 1

Support Rating Floot (SRF): A+

Related Party Exposures

The Bank's principal related party transactions are with its major shareholders, directors and executive officers, their close family members and companies controlled by them or their close family members. The International Financial Reporting Standards (the "IFRS") require the disclosure of related parties in cases where those related parties exercise significant influence. Transactions with related parties are made in the normal course of business on the same terms, including profit rates and collaterals, as those prevailing at the same time for comparable transactions with unrelated parties.

The Bank adheres to CBK guidelines on lending related parties. Financing facilities to members of the Board can only be approved under the conditions specified by the CBK which include the following:

- All facilities to board members must be approved, renewed or modified only at the Board level.
- The approval, renewal or modification of board members' facilities can only be considered approved when at least three-quarters of the board members have approved the same, and;
- the Bank must acquire adequate collateral.

Furthermore, credit extensions to related parties are also subject to adherence to the overall CBK limits which include that the total correlated party exposures shall not exceed 50 % of a Bank's capital.

Increasing competition

The Bank faces a high level of competition for all of its products and services. The Bank competes with other domestic banks in Kuwait. As the governments of the MENA region continue to liberalize their economies and initiate economic reforms, international banks are increasing their footprint in Kuwait, whether directly or through strategic investments, and compete with the Bank for financing and deposits as well as trade finance and other banking business. The competitive nature of the Kuwaiti banking market and that of the MENA region and any inability by the Bank to compete successfully may adversely impact the Bank's business, financial condition, results of operations or prospects.

Loss of Key Personnel

The Bank's success and ability to maintain current business levels and sustain growth will depend, in part, on its ability to continue to recruit and retain qualified and experienced banking staff. The market for such personnel in the Middle East is intensely competitive and the Bank could face challenges in recruiting and retaining such personnel to manage its businesses.

The Bank depends on the efforts, skill, reputation and experience of its senior management, as well as synergies among their diverse fields of expertise and knowledge. The loss of key personnel could delay or prevent the Bank from implementing its strategies.

Boubyan gives special care for its human resources as a part of being a modern bank which keeps pace with international and regional developments through its young management. Furthermore, the bank has complete succession plans which help mitigate the risks of losing key personnel.

Impact of regulatory changes

The Bank is subject to the laws, regulations, administrative actions and policies of Kuwait and each other jurisdiction in which it operates. These regulations may limit the Bank's activities and changes in supervision and regulation, in particular in Kuwait, could materially affect the Bank's business, financial condition, results of operations or prospects.

Appendices

Appendix (1): Approval of the Central Bank of Kuwait.

Appendix (2): Approval of the Capital Markets Authority.

Appendix (3): Opinion of the Sharia Supervisory Board

Appendix (4): Subscription Application Form

Appendix (5): Memorandum and Articles of Association

Appendix (6): Financial Statements

Appendix (1) : Approval of the Central Bank of Kuwait

(Translation from the original)

Date: 11 Rabī' al-Ākhir 1440 A.H.	**(Emblem of the State of Kuwait)**	**Dr. Mohamed Yousef Al Hashel**
Corresponding to December 18th 2018	**Central Bank of Kuwait**	**The Governor**
Ref: 2/105/12641	**(Emblem of the Central Bank of Kuwait)**	

Mr. Mahmoud Yousef Al-Fulaij

Chairman - Boubyan Bank

Dear Sir,

Reference is made to your bank's letter dated December 9th 2018 requesting CBK's approval of your bank's issued and paid up capital's increase by 15.75% through the issuance of new shares to be offered for public subscription, provided that the issue premium is 250 fils per share over and above the nominal share value of 100 fils.

We would like to notify you of CBK's approval of the above.

Best regards,

Sincerely,

(**Signed)**
Dr. Mohamed Yousef Al Hashel

Appendix (2): Approval of the Capital Market Authority

(Translation from original)

The Capital Markets Authority
CMA Outgoing Mail
Date: February 20th 2019
Correspondence #: CMA-040300-00668-2019

Mr. Adel Abdul Wahab Al-Majed
Vice Chairman and CEO
Boubyan Bank K.S.C.P.

Subject: Approval of the Capital Increase of Boubyan Bank Through the Distribution of Bonus Shares and a Cash Increase

Reference is made to the above subject, your request dated February 5th 2019, and your bank's letter dated February 5th 2019, Ref # 4948/2019, and in accordance with the instructions of the Capital Markets Authority concerning the Increase or Decrease of Capital or the Issuance of Securities, and Law no. 7 of 2010 & Its Executive Bylaws, as amended, and subject to your compliance with the provisions of the Companies Law no. 1 of 2016, the Capital Markets Authority would like to notify you that it has approved the bank's capital increase from KD 238,847,160.300 to KD 288,407,946 by KD 49,560,785.700 at a rate of 20.75% of the bank's capital through the issuance of 495,607,857 new shares in the following manner:

- KD 11,942,358 in bonus shares distributed to 119,423,580 shares, at 5% of the capital, to be allocated for shareholders registered with the bank's records as at the end of the set entitlement date.
- A cash increase amounting to KD 37,618,427.700 distributed to 376,184,277 shares, i.e. 15.75% of the capital, to be offered as (a nominal share value of 100 fils per share and an issue premium) to be allocated for shareholders registered with the bank's records as at the end of the set entitlement date.

(Translation from original)

It is necessary to comply with all the provisions issued by virtue of the CMA's resolution no. 62 of 2017, dated April 25th 2017 Pertinent to the Amendment of Some of the Articles of the Executive Bylaws of Law no. 7 of 2010 Regarding the Establishment of the Capital Markets Authority and Regulating Securities Activities and its Amendments to Implement Some Clauses of Post-Trade Model (Transitional Phase).

Your bank shall draft a Public Subscription Prospectus as per the provisions and requirements of Chapter V "Securities Subscription" of the Eleventh Module "Dealing in Securities" of the Executive Bylaws of Law no. 7 of 2010 Pertinent to the Establishment of the Capital Markets Authority and Regulating Securities Activities, as amended.

Best regards,

Zeyad Yaqoub Yousif Al-Fulaij
Head of Supervision Sector

CMA Stamp

CC: Central Bank of Kuwait

Appendix (3): Opinion of the Sharia Supervisory Board

(Translation from original)

Date: 28 Jumādā al-Ūlā 1440 A.H.
Corresponding to: February 3rd 2019

To the Shareholders of Boubyan Bank
Peace be with you!

Subject: Subscription in the Shares of Boubyan Bank's Capital Increase

We would like to inform you that in its meeting no. 01/2019, dated February 3rd 2019, the Sharia Supervisory Board at Boubyan Bank has reviewed the recommendation of the Board of Directors to increase the authorized, issued and paid up capital of the bank by 376,184,277 shares at an issue premium of 250 fils per share over and above the nominal value of the share of 100 fils to be paid in cash. This shall be fulfilled through the issuance of new shares to be offered for public subscription, and to be allocated for the existing shareholders registered with the bank's records as at the end of the day prior to the date of the call for the capital increase, each shareholder proportionately with his holding in the capital.

It is permissible to subscribe in unsubscribed shares by any of the bank's shareholders who is willing to do so. Furthermore, should the subscription requests exceed the number of the shares offered for subscription, they shall be allocated to subscribers on a pro rata basis against the percentage of their subscription. In all cases where the new shares are not fully subscribed in, unsubscribed shares shall be disposed of in the manner so decided by the provisions of the Law. The Board of Directors shall be authorized to call for the capital increase and to determine all the controls, conditions and rules of the subscription and disposal of the share fractions, if any.

The Sharia Supervisory Board has decided that there are no Sharia impediments which prevent the capital increase.

Allah Almighty is the Arbiter of Success.

(Signed)	**(Signed)**
Sheikh Dr. Abdulaziz Khalifa Al-Qasar	**Sheikh Dr. Esame Khalaf Al-Enezi**
(Signed)	**(Signed)**
Sheikh Dr. Ali Ibrahim Al-Rashid	**Sheikh Dr. Mohammed Awad Al-Fuzaie**

Appendix (4) : Subscription Application Form - Sample

Issuer :	Boubyan Bank K.S.C.P
Issuer advisor and subscription agent :	Boubyan Bank K.S.C.P
Clearing & Depository Agent :	Kuwait Clearing Company K.S.C

Subscription form in increase the capital

Date :		**Form number:**	

Dear Gentlemen / Boubyan Bank K.S.C.P
Please accept my subscription in the capital increase which had been approved by the Extraordinary General Assembly held on 17/3/2019 to the shareholders registered on 18/4/2019 according to the following information:

First: Shareholder Information

Participant ID:	
Shareholder Name:	
Shares balance as at …../…../2019:	

Second: Subscription Information

Subscription Percentage:	15%	**Share Price:**	350 fils
Total Amount:		**Shares Subscribed:**	

Third: Payment Method

Name of the Bank:			
Payment Method:	O Cheque O Transfer		
Date of Cheque/Transfer:		**Number Cheque/Transfer:**	

Fourth: Applicant Information:

Civil ID No.		**Applicant Name:**	
Email:		**Telephone Number:**	
Signature:			

Fifth: Internal Usage:

Employee Name:		**Employee No.**		**Signature:**	

MEMORANDUM & ARTICLES OF ASSOCIATION

Boubyan Bank
Public Kuwait Shareholding Company

Memorandum of Association

On Wednesday, 3 Safar 1425 A.H., corresponding to March 24th 2004 A.D., and before us;

- Mamdouh Salem, Authentication Officer at the Department, where I visited the premises of the First Party and obtained his signature as at the contract's date.
- Reda Bdeer Arafat, Authentication Officer at the Department, where I visited the premises of the Second Party and obtained his signature on March 28th 2004.

The below parties were present:

1- **Kuwait Investment Authority** – a public entity with an independent legal personality, annexed to the Minister of Finance, by virtue of Law no. 47 of 1982 in its capacity as a representative of the government of the state of Kuwait, representing in signing this contract by Mr. Mohammed Bader Mohammed Abdullah Al-Saad, Kuwaiti national, holding Civil ID card # 258012300164, in his capacity as the Managing Director of KIA by virtue of the resolution of KIA's Board of Directors, dated December 10th 2003, as approved by the Minister of Finance, the Chairman of Kuwait Investment Authority, no. 7 of 2003, dated December 14th 2003 whose copy is attached to the original contract.

First Party in the aforementioned capacity

2- **The Public Institution for Social Security ("PIFSS")** - a public entity with an independent legal, personality under the supervision of the Minister of Finance, by virtue of Law no. 61 of 1976, represented in signing this contract by Mr. Fahad Mazyed Rajaan Al-Rajaan, Kuwaiti national, holding Civil ID card # 248122300131, in his capacity as the General Manager of PIFSS.

Second Party in the aforementioned capacity

Article (1)

By virtue of this contract, Kuwait Investment Authority, in its capacity as the representative of the Kuwaiti government and the Public Institution for Social Security, incorporated a public Kuwaiti shareholding company in accordance with the provisions of the Commercial Companies Law no.15 of 1960, as amended, and law no.32 of 1968 Concerning the Currency, the Central Bank of Kuwait and the Organization of the Banking Business, as amended, and Law no. 30 of 2003 with respect to the Addition of a Section for Islamic Banks to Third Chapter of Law no. 32 of 1968 Concerning the Currency, the Central bank of Kuwait and the Organization of the Banking Business as well as this Memorandum of Association and the Articles of Association attached hereto.

Article (2)

Company's Name: Boubyan Bank (Kuwait Public Shareholding Company).

Article (3)

The Company's Head Office and legal domicile is in Kuwait City and the Board of Directors may establish other branches, agencies or representative offices in the state of Kuwait or abroad.

Article (4)

The term of this Company is indefinite and shall commence from the date of publishing the incorporation decree in the Official Gazette.

Article (5)

The objectives for which the company was incorporated are to exercise all banking activities and such activities as provided by the Commercial Law or such activities in accordance with the provisions of the Noble Islamic Sharia and according to the regulations set by the Central Bank of Kuwait. The Company may not directly or indirectly exercise any banking or financial activities which are in conflict with the Islamic Sharia. To achieve these objectives, the Company may carry out the following activities:

1) Offer or sell securities for their issuer, its affiliate or acquire securities from the issuer or its affiliate for the purpose of remarketing (issue management)[1].
2) Accept Deposits of whatever types whether in the form of current, or savings account, investment accounts for duration and for specific or non- specific purposes.
3) Exercise different credit financing operations by using different forms of contracts such as Murbabha, Musharaka, Mudaraba, manufacturing and leasing in locally and internationally.
4) Provide banking and financial services of whatever type and dealing with bonds and shares in accordance with Islamic Sharia.
5) Process direct and financial investment operations whether for its own account or for the account of third parties or in cooperation with third parties.
6) Establishment of companies or participate in the existing ones or under establishment, which exercise different economic activities which are not in conflict with Islamic Sharia.
7) All business activities which are related to the realization of such objectives or arising there from, related to or assisting it whether directly or indirectly.

   The Company may have an interest or participate in whatsoever manner in the organization, establishments or companies carrying business of similar activities or which may cooperate with it to achieve its objectives inside Kuwait and abroad and buy such organizations, establishments or companies, affiliate or amalgamate them provided that such activities are

[1] This has been added as a new objective of the bank by virtue of the notation in the Commercial Register dated May 17th 2015.

in compliance with the Islamic Sharia and the controls and regulations laid out by the Central Bank of Kuwait in this respect.

Article[2] (6)

"The Company's capital has been fixed at 288,407,946 (KD two hundred eighty-eight million, four hundred and seven thousand, nine hundred forty-six) divided into 2,884,079,460 shares at 100 (one hundred) fils per share - all are cash shares."

Article (7)

Kuwaiti government, represented by the Investment Public Authority subscribed in its capacity as one to the founders with a total shares of 200 million shares (Two Hundred Million shares) and paid their nominal value of KD 20 million (Kuwaiti Dinars Twenty Million only) in cash with Kuwait Finance House as per the Certificate dated 1/3/2004 attached to the original hereof.

The Public institution for Social Security also subscribed in its capacity as one of the founders signed hereunto to the Bank's capital with a total shares of 40 Million shares (Forty Million shares) and paid their nominal value of KD 4 Million (Kuwaiti Dinars Four Million only) in cash with Kuwait Finance House as per the Certificate dated 1/3/2004 attached to the original hereof.

The remaining shares of 760 Million shares (Seven Hundred Sixty Million) shall be floated for public subscription in accordance with the Provisions of the Articles of Association.

Article (8)

The expenses, expenditure, wages and costs to be paid by the Company due to its incorporation, amount to about KD 2,280,000 (Kuwaiti Dinars Two Million Two Hundred Eighty Thousand only) to be deducted from the general expenses account.

Article (9)

The Company's General Assembly shall, upon the recommendation of the Board of Directors, in its annual ordinary meeting, appoint the Legal Control Authority, consisting of at least three members chosen from scholars specialized in Islamic dealings and jurisprudence in general and Islamic financial dealing in particular and it shall determine their allocations and remunerations. The members of the Legal Control Authority shall select one of them as a president and the validity of their meetings to discuss such procedures shall depend upon the attendance of all its members, if such members do not exceed three in number.

[2] The bank's capital was increased several times, the last of which is the increase by virtue of the notation in the Commercial Register, dated March 24th 2019.

Article (10)

Both founders signing hereunto undertake to carry out all procedure necessary to accomplish the incorporation of this company.

Both founders have authorized a temporary committee to represent them to take such procedures consisting of the following persons:

_ Adnan Abdul Qader Al-Musallam, Kuwaiti national, holder of Civil ID No. 25011400842.

_ Dharar Khaild Al Rabah, Kuwaiti national, holder of Civil ID No. 260110400188.

The members, jointly or severally, shall have the right to take all legal procedures, fulfill the necessary documents and make the amendments deemed by the official authorities necessary for this Contract or the attached Articles of Association. They have the right to deposit the subscription amounts with the approval banks in Kuwait until the formation of the first Board of Directors.

Article (11)

This Contract was drawn up by virtue of the Ministry of Commerce & Industry letter No .8796 dated 13/3/2004 registered in the incoming mail of Companies & Contracts Authentication Control, Ministry of Justice under No. 1502 dated 13/03/2004.

First Party in his capacity	**Second Party in his capacity**
Bader Mohammed Abdullah Al-Saad	**Fahad Mazyed Al-Rajaan**

This Contract has been drawn up in one original and (8) copies, consisting of (4) pages with neither deletion nor addition and consist of (11) articles. Each copy hereof has the Articles of Association which consists of (16) pages and (58) articles with neither deletion nor addition and its enclosures are attached to the original, i.e., the letter of the Ministry of Commerce & Industry, the Bank's letter, the draft of the Memorandum of Association approved by Ministry of Commerce & Industry and the copies of the civil ID Cards of the promoters.

Authentication Officer: Mamdouh Salem
Authentication Officer: Reda Bdeer Arafat

BOUBYAN BANK

KUWAITI PUBLIC SHAREHOLDING COMPANY

ARTICLES OF ASSOCIATION

CHAPTER .I

INCORPORATION OF THE COMPANY

(A) Elements of incorporation of the Company

Article(1)

In accordance with the provisions of the law and these Articles of Association a Public shareholding company has been incorporated among the shareholders whose terms and conditions are shown herein after named: Boubyan Bank Company- (Kuwaiti Shareholding Company).

Article(2)

The Head office and the legal domicile of the Company is located in Kuwait City and the Board of Directors may establish branches, agencies offices or representative Offices ‘thereof in the State of Kuwait or abroad.

Article(3)

The term of this Company is indefinite, commencing from the publishing date of the decree issued for its incorporation in the Official Gazette.

Article(4)

The objectives for which the company has been established are to exercise all banking and commercial activities and all those which are stipulated in the Commercial Law or the traditions as banking activities in accordance with Islamic Sharia and the controls and regulations laid out by the Central Bank of Kuwait.

The Company may no, directly or indirectly, exercise any banking or financial activities which are in conflict with Islamic Sharia and for this purpose, the Company may carry out the following activities:

1) Offer or sell securities for their issuer, its affiliate or acquire securities from the issuer or its affiliate for the purpose of remarketing (issue management)[3].
2) Accept deposits of whatever types whether in the form of current or saving account, investment accounts for durations and for specific or non- specific purposes.
3) Exercise different financing operations by using different forms of contacts such as Murabha, Musharka, Mudaraba, manufacturing and leasing in locally and internationally.
4) Provide banking and financial services of whatever type and dealing with bonds and shares in accordance with Islamic Sharia.
5) Process direct and financial investment operations whether for its own account or the account of third parties or in cooperation with third parties.
6) Establishment of companies or participate in the existing ones or under establishment, that exercise different economic activities which are no in conflict with Islamic Sharia.
7) All business activities which are related to the realization of such objectives or arising therefrom, related to or assisting it whether directly or indirectly.

The company may have an interest or participate in whatsoever manner in the organization, establishments, or companies carrying business of similar activities or which may cooperate with it to achieve its objectives Kuwait and abroad and buy such organizations, establishments or companies, affiliate or amalgamate them provided that such activities are in compliance with Islamic Sharia and controls and regulations laid out by the Central bank of Kuwait in this respect.

(B)Capital

Article[4] (5)

"The Company's capital has been fixed at 288,407,946 (KD two hundred eighty-eight million, four hundred and seven thousand, nine hundred forty-six) divided into 2,884,079,460 shares at 100 (one hundred) fils per share - all are cash shares."

Article(6)

The Company's shares are nominal and non – Kuwaitis may own such shares in accordance with the provisions of the law and ministerial resolutions relating thereto.

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[3] This has been added as a new objective of the bank by virtue of the notation in the Commercial Register dated May 17th 2015.

[4] This article has been amended several times, the last of which by a notation in the Commercial Register, dated March 24th 2019.

Article(7)

The entire value of the shares shall be paid upon subscription in addition to any other incorporation expenses per each share to the incorporation expenses account. Any excess money shall be disposed of in accordance with provisions of the Commercial Companies Law.

Article(8)

Kuwaiti government, represented by investment Public Authority subscribed in its capacity as one of the founders with a total shares of 200 Million shares (Two Hundred Million shares) and paid their nominal value of KD 20 Million (Kuwaiti Dinars Twenty Million only) in cash with Kuwait Finance House as per the Certificate dated 1/3/2004 attached to the original hereof.

The Public Institution for Social Security also subscribed in its capacity as one of the founders signed hereunto to the Bank's capital with a total shares of 40 Million shares (Forty Million Shares) and paid their nominal value of KD 4 Million (Kuwaiti Dinars Four millions only) in cash with Kuwait Finance House as per the certificate dated 2004 attached to original hereof.

The remaining shares of 760 Million shares (Seven Hundred Sixty Million)

Shall be offered for public subscription according to the provisions of the Articles of Association.

Article(9)

The remaining 760 million shares (Seven Hundred and Sixty Million shares only) shall be offered for public subscription for at least fifteen days and shall not exceed three months as a maximum limit in accordance with the provisions of the Commercial Companies Law.

Article (10)

Subject to the provision of Law No. 32 of 1968 concerning currency, the Central Bank of Kuwait and the organization of business regulating banking, as amended, as well as these Articles of Association, no person may either subscribe to more than 100 Thousand shares (One Hundred Thousand shares) or possess 5% of the company's capital at any time.

Article (11)

Ownership of the shares inevitably entails the acceptance of the provisions of the Company's Memorandum and Articles of Association and its General Assembly resolutions.

Article (12)

Each share vests in its holder the right of a share equal to the share of any other shareholder without discrimination as regards the ownership of the Company's assets and the profits divided as mentioned hereinafter.

As the shares of the Company are nominal, the last shareholder registered in the Company's register, shall alone have the right to receive the amounts due on shares whether dividends or ownership in shares of the Company's assets.

Article (13)

The Capital may not be increased unless the original share value has been paid in full. The new shares may not be issued at a value less than their original value if they are issued with more value, the difference is to be compulsorily added to the statutory reserve after the settlement of the issue expense.

Every shareholder shall have the priority to subscribe to his share of the new shares in proportion with the number of his shares. Fifteen days' period from the date of publishing the invitation of the shareholders to this effect shall be given so as to exercise their right of priority and shareholders may waive in advance, their priority rights.

Article[5] (14)

The Company may purchase or sell no more than 10% of its total shares in accordance with the controls and conditions set by the Law, and the relevant instructions of regulatory authorities in that regard.

Additional Article[6]

In order to retain competent employees at the company and to reinforce their loyalty, the Board of Directors shall be vested with the right to introduce an Employee Stock Options Plan ("ESOP") as per the conditions and controls set out by the Ministerial Decree no. 337 of 2004, and in accordance with the following:

1- In order to fulfill the obligations by virtue of this scheme, the company may allocate the necessary shares for implementing the scheme out of the treasury shares or by increasing the company's capital, provided that the increase of the company's capital for this purpose may not exceed 5% per each 5 years, and that the total increases shall not exceed 10% within a 10-year period at most from the beginning of this scheme.
2- Except for board members in managing roles, board members shall not participate in this scheme.
3- In capital increases for implementing this scheme, employees benefiting from this option shall have pre-emption to the shares of such capital increase. Accordingly, shareholders shall waive their designated pre-emption to shares in subscription to the capital increase.

[5] Article no. 14 of the Articles of Association has been amended by virtue of the notation in the Commercial Register, dated March 23rd 2016.

[6] A new article has been introduced to the bank's Articles of Association by virtue of the notation in the Commercial Register on December 19th 2010.

CHAPTER .II
THE COMPANY MANAGEMENT
(A) THE BOARD OF DIRECTORS

Article[7] (15)

The Company shall be managed by a Board of Directors consisting of (9) nine members, who shall be elected by secret ballot. The membership term shall be 3 years and members may be re-elected. If a new board of directors cannot be elected on time, the existing Board shall continue managing the company's business until all obstacles are resolved, and a new board is elected.

Article [8] (16)

It is provided that a member of the Board of Directors shall be a person or a corporate entity, which he represents, holding a number of shares, whose nominal value shall not be less than KD 7,500 and these shares shall be allocated as collateral to ensure the well-management of the director and the same shall be deposited within one month from the appointment date with an approved bank. Such shares shall remain non-transferable, untradeable or unassignable until the expiry of the membership term, and until the approval of the financial statements of the last year wherein the Director carried out his business. If the Director fails to submit the collateral in the manner stated above, his membership shall be invalid.

Article[9] (17)

Subject to the provisions of Law no. 32 of 1968 Concerning the Currency, the Central Bank of Kuwait and the Organization of the Banking Business, as amended, any one represented in the BoD, the Chairman or a member of the Broad of Directors or any member of the Executive Management, their spouses, or second-degree relatives may not have a direct or indirect interest in the contracts and disposals made with or for the account of the company unless the same is specifically authorized by the Ordinary General Assembly. Furthermore, such a person may not dispose in any manner whatsoever of the shares of the company wherein he is a board member throughout the term of his membership except in compliance with the provisions of the law, instructions and conditions decided by the regulatory authorities. The board members may not disclose to shareholders, in meetings other than general assembly meetings, or to third parties the company secrets they came to know by virtue of their management tasks. Also, the chairman or any of the board members may not be a board member in two competitor

[7] Article no. 15 of the Articles of Association has been revised by virtue of notation in the Commercial Register on April 7th 2014.
[8] Article no. 16 of the Articles of Association has been revised by virtue of notation in the Commercial Register on April 7th 2014
[9] Article no. 17 of the Articles of Association has been revised by virtue of notation in the Commercial Register on April 7th 2014

companies at the same time, or participate in a business which could compete with the company, or practice business for himself or on behalf of others in the branches of the business practiced by the company, otherwise, the company may be entitled to claim compensation or to consider that the transactions made for himself as if they were made for the account of the company unless such is made with the approval of the Ordinary General Assembly.

Article (18)

If the position of a Board member becomes vacant, he shall be succeeded by the shareholder holding the largest number of votes from amongst the shareholders
who have not been successful in the last election. Should the vacant positions amount to one-quarter of the real positions or should nobody fulfill the required conditions, the Board of Directors must convene the general meeting, at least within two months from the date on which the last position became vacant, to elect those who shall
occupy the vacant positions and if a position for an appointed director became vacant, the Minister of Finance shall appoint a successor. In all such cases, the new member shall complete the term of his predecessor only.

Article (19)

The Board of Directors shall elect by secret ballot the Chairman and Deputy Chairman for a term of three years.

Article[10] (20)

The Chairman shall represent the Company in its relationships with third parties and before the courts. He shall also be vested with other powers as provided by the company's AoA, and shall execute the resolutions issued by the Board, and abide by its recommendations. The Vice-Chairman shall replace the chairman in his absence or whenever he cannot perform his duties due to any impediment.

Article[11] (21)

The right to sign on behalf of the company severally shall be vested with the chairman, the vice-chairman or his deputy. The signature thereof shall be deemed as the signature of the board of directors in the company's relationship with third parties. The company shall have a CEO, or more, from among the board members or others, who shall have the duty of managing the company. The board of directors shall determine its provisions, and powers to sign on behalf of the company. It is now allowed to hold the Chairman & CEO positions simultaneously by any

[10] Article no. 20 of the Articles of Association has been revised by virtue of notation in the Commercial Register on April 7th 2014
[11] Article no. 21 of the Articles of Association has been revised by virtue of notation in the Commercial Register on April 7th 2014

person. The board may distribute the duties among its members as per the nature of the company's business. The board may further delegate one of its members or a committee formed from the board members, or any third party to undertake a specific job or more or to supervise any aspect of the company's activities, or to exercise some of the authorities or powers vested with the Board of Directors.

Article[12] (22)

The Board of Directors shall convene at least 6 times per each financial year upon the Chairman's invitation. It may also be convened upon the request of at least three of its members. The Board's meeting shall be considered duly held and valid if attended by half the members thereof, provided that the number of attendees shall not be less than 3. Attendance by proxy is not allowed. Meetings can be held using the modern means of communication. It is permissible to make decisions by circulation by virtue of the approval of all the board members. If a member of the Board of Directors fails to attend six consequent sessions, without an acceptable excuse for the board, he shall be considered resigned.

The board of directors shall have a Board Secretary to be appointed by the Board, which shall determine its powers in line with the provisions of the Law.

Article[13] (23)

Resolutions made by the Board of Directors shall be passed by the majority of those present. In case of a tie, the Chairman shall have a casting vote. A special register shall be maintained in which minutes of the board meetings shall be recorded and signed by the present board members, the board's secretary, and a board member who objects to the resolution approved by the board may record his objection in the meeting minutes.

Article (24)

The Board of Directors, shall determine upon the motion of the Chairman, the conditions or regulations for contracting with consultancy bodies, experts, consultants and individuals whether their relations with the Company are of a permanent or temporary nature.

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[12] Article no. 22 of the Articles of Association has been revised by virtue of notation in the Commercial Register on April 7th 2014

[13] Article no. 23 of the Articles of Association has been revised by virtue of notation in the Commercial Register on April 7th 2014

Article[14] (25)

Without prejudice to provisions of the Companies Law no. 25 of 2012, as amended, the General Assembly shall determine the remuneration of the Board members.

Article (26)

The Board of Directors shall have the widest powers in managing the officers of the Company and in exercising all the functions necessary for the company's management as per its objectives. Such powers shall only be restricted as per the stipulation of the law or these Articles, or the General Assembly resolutions. The Board of Directors may, in particular , pay all the fees and initial expenses necessary for the Company's establishment such as the registration publication and execution of the provisions of the Memorandum and Articles of Association , carry out all the necessary legal procedures for that, determine the general expenses for management, issue regulations and rules , organize work , appoint managers or seniors and employees at all administrative levels, describe their jobs, determine their duties and responsibilities of each of them and determine their salaries and remunerations.

Article[15] (27)

The Board of Directors shall have the right to purchase and sell the moveables and real estate properties as well as the right to dispose of the company's assets in whole or in part by means of sale or otherwise against the price it deems proper, especially in consideration for shares, holdings and other financial instruments issued by another company. The Board shall have the right to borrow money or obtain it by the means it deems proper, inside the country or abroad, lease and rent, and may carry out all necessary actions for conducting every business within the company's objectives. The Board of Directors may sell the Company's real estate properties, mortgage them, extend guarantees, and conclude contracts for loans against the Company's real estate properties' security. The board may authorize filing all legal cases and defending the company's interests before the courts, whether the company is a plaintiff or a defendant, and may reconcile, donate, conclude settlements, resort to arbitration, cancel entries, waive the rights, for price or not, determine the method of utilizing the Company's monies including its reserves. In general, the Board of Directors shall administer the Company's businesses and affairs in the best manner, without conflicting with the provisions of the Noble Islamic Sharia.

[14] Article no. 25 of the Articles of Association has been revised by virtue of notation in the Commercial Register on April 7th 2014

[15] Article no. 27 of the Articles of Association has been revised by virtue of notation in the Commercial Register on April 7th 2014

Article (28)

The Board members shall not commit themselves to any personal obligation as regards the Company undertakings while performing their duties within the limits of their power of attorneys.

Article (29)

The Chairman and board members shall be responsible towards the Company, shareholders and third parties for their acts as well as any fraudulent acts, misuse of power, violation of the law and these Articles, or any mismanagement.
A motion by the General Assembly to discharge the board of Directors shall not preclude the institution of legal action against the members for their liability there under.

(B) THE GENERAL ASSEMBLY

Article[16] (30)

Invitation shall be addressed to shareholders to attend the General Assembly meetings in line with the procedures and provisions set forth in Law no. 25 of 2012, promulgating the Companies Law, as amended.

Article (31)

Each shareholder shall be entitled to a number of voted equal to the number of shares he holds.
Attendance by proxy is permissible.
Minor and legally incompetent shareholders must be represented by their legal representatives.
No member may participate in voting for himself or for the one he represents in the issue related to his own benefit or to a dispute between him and the company.

Article (32)

The shareholders shall record their names in the special register prepared for that propose at the Company's Head office, at least 24 hours before the date fixed for the meeting of the General Assembly. The register shall include the name of shareholder, number of shares he holds and the number of shares he represents and the names of their original holders, in which case the shareholder will have to submit the relevant proxy. The shareholder will be given attendance card indicating the number of votes he is entitled to in his capacity as principal and a proxy.

[16] Article no. 30 of the Articles of Association has been revised by virtue of notation in the Commercial Register on April 7th 2014

Article[17] (33)

The provisions of Law no. 25 of 2012, promulgating the Companies Law shall apply to the quorum necessary for the validity of the General Assembly meetings in its different forms and to the required majority for passing the resolutions thereof, too.

Article (34)

Voting in the General Assembly shall be made in the manner set by the Chairman of the meeting, unless the General Assembly determines a specific manner for voting. Voting shall be made by secret ballot for the purpose of electing the Board Members or for terminating their membership.

Article (35)

The founders shall send invitations to the shareholders within 3 months from the deadline of subscription to the Constituent General Assembly and they shall submit a report relating to the procedures and all operations of the incorporation, together with supporting documents The Assembly shall verify the validity of such incorporation procedures and operations and their compliance with the Company's Memorandum of Association and Articles of Association. The General Assembly shall also review the relevant reports which may be submitted by the Ministry of Commerce and industry and shall elect members for the first Board, appoint the auditors and announce the final in corporation of the Company.

Article[18] (36)

The Ordinary General Assembly must be convened at least once a year upon an invitation from the Board of Directors within three months from the end of the Company's financial year. The Board may invite the General Assembly to convene whenever it deems necessary. The board of directors shall call for a General Assembly meeting upon a justified request by a number of shareholders holding at least 10% of the company's capital or upon the request of the auditor. This shall be done within 15 days from the date of the request. The meeting's agenda shall be prepared by the party requesting the meeting.

The Ministry may call the General Assembly to convene within 15 days if the board of directors does not make the invitation for the General Assembly meeting for any reason whatsoever under any of the cases wherein the board shall call for a General Assembly meeting.

[17] Article no. 33 of the Articles of Association has been revised by virtue of notation in the Commercial Register on April 7th 2014

[18] Article no. 36 of the Articles of Association has been revised by virtue of notation in the Commercial Register on April 7th 2014

The Ministry shall replace the board in taking the necessary procedures to hold this meeting, and may preside the meeting unless the general assembly elects one of the shareholders to undertake this role.

Article[19] (37)

The Ordinary General Assembly shall be competent to discuss all matters related to the Company's affairs, save those reserved by the Law or these Articles for the Extraordinary General Assembly.

Article (38)

The Board Directors shall submit to the Extraordinary General Assembly a report detailing the Company's' Business activities, financial position, statement of profit & loss account, and also a statement of the directors remuneration, auditor's fees and the proposal for the distribution of the profits.

Article (39)

The Ordinary General Assembly shall discuss the Board of Directors report and make the appropriate decisions and consider the auditor's report and report of the Ministry of Commerce and Industry, if any it shall elect the members of the Board of Directors and appoint auditors for the coming fiscal year and fix their fees and remunerations.

Article[20] (40)

The Extraordinary General Assembly shall be convened upon an invitation from the Broad of Directors or upon the justified request of shareholders holding at least 15% of the Company's issued capital or upon a request from the Ministry. The Board must call the General Assembly to convene within 30 days the date of receiving such a request.
If the Board does not call the General Assembly to convene within the aforementioned period, the Ministry shall call for the meeting within 15 days from the end of the aforementioned period.

Article (41)

The following issues shall be decided only by the Extraordinary General Assembly:

1) Amendment of the Company s Memorandum or Articles of Association.
2) Selling or disposing of the entire enterprise undertaken by the Company.
   Or otherwise; disposing of it in many other manners.

[19] Article no. 37 of the Articles of Association has been revised by virtue of notation in the Commercial Register on April 7th 2014
[20] Article no. 40 of the Articles of Association has been revised by virtue of notation in the Commercial Register on April 7th 2014

3) Dissolving the Company or amalgamating it with another Company, or entity.
4) Reducing the capital of the Company.

In no cases whatever, the amendment, disposition, amalgamation or any procedure may not prejudice the company's ability to finance itself in all its forms, and no amendments in the Company's Articles of Association may be effective except after the approval of the Central Bank of Kuwait and the Ministry of Commerce & Industry and taking all necessary procedures stipulated by relevant laws. Any amendment related to the company's name, objective or capital, except increasing the capital by means of issuing shares in consideration for profits realized by the Company or as result of the addition of the reserves which are permissible to be used to the capital, shall not be effective unless a decree has been passed in that respect.

CHAPTER .III
LEGAL CONTROL AUTHORITY

Article (42)

The company shall, as a matter of principle, perform all its business in accordance with the Islamic Sharia.

Article (43)

The company's General Assembly, upon the recommendation of the Board of Directors in its ordinary annual meeting, shall appoint the Legal Control Authority consisting at least of three members chosen from the scholars specialized in the Islamic dealing and jurisprudence in general and the Islamic financial dealings in particular and it shall determine their allocations and remunerations. The members of the Legal Control Authority shall select from themselves a president and the validity of meetings to discuss such procedures shall depend upon the attendance of all this members, if such members, do not exceed three in number.

Article (44)

The Legal Control Authority shall be responsible for giving opinion about the Company's compliance with respect to its dealings and operations with the Islamic Sharia and for this purpose, the Authority shall inspect the contracts, agreements, policies and dealings made by the Company with third parties. The Authority is entitled to full- unrestricted access and review all registers and dealings made with the Company, in order to ensure their compliance with the Islamic Sharia. The Company's management shall provide the Authority with all data and information required for the performance of its tasks. The Authority shall submit an annual report to the Bank's General Assembly including its opinion in respect of the compatibility of the Bank's business and operations with Islamic Sharia and its comments /remarks in this respect. Such report shall be included in the Bank's annual report.

Article (45)

The Board of Directors shall Issue the bylaws for the work of the Legal control Authority its duties, specialization, meetings and organization of its relations with the Company's departments. The Board of Directors shall appoint upon the recommendation of the Legal Control Authority, an internal legal superintendent for the Company to monitor all the Company's business and affairs and its compliance with the resolutions and recommendations issued by the Legal Control Authority and he shall submit his reports and comments / remarks to the president of the Authority.

Article (46)

If a dispute arose between the Authority's members relating to a legal opinion on a subject referred to the Authority, the Board of Directors may within a period not exceeding thirty days, refer the subject to the Fatwa Authority, Ministry of Awqaf and Islamic Affairs and the opinion of Fatwa Authority, Ministry of Awqaf and Islamic Affairs and Islamic Affairs shall be binding and final.

Article (47)

No members of the Legal Control Authority may be stopped from performing his work or dismissed except by a resolution passed by the General Assembly stating the reasons for taking such a procedure.

CHAPTER .IV
The Company Accounts

Article (48)

The Company shall have one or more auditors who shall be chartered accounts. Such auditors, shall be appointed and their fees determined by the General Assembly. They shall audit the accounts of the fiscal year for which they have been appointed.

Article (49)

The company's fiscal year shall commence on the first of January and end on the 31st of December every year. However, the Company's first fiscal year shall commence on the date of publishing its final incorporation and shall end on the 31st December of the following year.

Article (50)

The auditors shall have powers and obligations as stipulated in the relevant laws, in particular, their right to inspect at any time all the Company s books, registers and documentation and to request and obtain any data / information they deem necessary. They shall also have the right to verify the Company's assets and liabilities. In case they could not exercise these rights, they should mention this in a written report to be submitted to the Board of Directors and presented to the General Assembly. They have the right to invite the General Assembly to convene for this purpose.

Article (51)

The two auditors shall submit to the General Assembly a report showing whether the balance sheet and profit and loss account fairly and clearly reflecting the actual financial position of the Company, whether the company keeps regular accountings. Whether an inventory has been duly carried out in accordance with the standard practice, whether the data /information appearing in the Board Directors report are consistent with Company’s books. Whether any violations against the provisions of the Company’s Articles of Association or the provisions of law had occurred during the fiscal year in a manner adversely affecting the Company’s business or its financial position and state whether such violations are still remaining. The auditors shall be responsible for the correctness of the data / information contained in their report in their capacity as the attorneys of all shareholders. Each shareholder may make, discuss and request any clarifications form the auditors regarding their report during the General Assembly.

Article (52)

A percentage of the gross profits as determined by the Board of Directors shall be deducted from the special reserves as debits reserve and currency rates fluctuation in addition to the depreciation, reserves and allocations imposed by law or traditions or provided for herein.

A percentage of the gross profits as determined by the Broad shall be deducted from the Company’s assets depreciation or compensate the falling down of their prices, and another percentage shall have deducted also upon the recommendation of the Board and approval by the General Assembly to meet the Company’s liabilities under taken under the labour laws.

Article (53)

Net profit shall be distributed in the following manner:

_ Ten percent (10%) shall be deducted and allocated to statutory reserve account.
_ Ten percent (10%) shall be deducted for the voluntary reserve and such deduction shall be stopped by the Ordinary General Assembly upon the approval of the Broad of the Directors and consent of the Central Bank of Kuwait.
_ One percent (1%) shall be deducted for Kuwait Foundation for the Advancement of Sciences’ account.
_ A necessary portion shall be deducted to distribute the first share of the profits of 5% to the shareholders for amount paid for the value of their shares.
_ An amount approval by the Ordinary General Assembly shall be allocated for the Board’s remunerations provided such amount shall not exceed 10% of the net profits after the pervious deductions.

_ The remaining profits shall be distributed to the shareholders as an additions share of the profits or to be carried forward upon the proposal of the Board of the Board of Directors to the next year or to be allocated to form the profits settlement reserve
to secure the proper distribution during the years in which net profits are less or to form extraordinary reserves.

Article (54)

Profit share shall be distributed to the shareholders at the place and dates determined by the Board of Directors.

Article (55)

The statutory reserve may not be distributed to the shareholders, but may be used to secure the distribution of profits up to 5% in the years when the Company profits does not permit such limit. If the statutory reserve exceeds half of the Company s Capital, the Assembly may decide to use the excess amount in the manner it deems appropriate for the interests of the Company and its shareholders.

CHAPTER .V
Expiry and Liquidation of the Company

Article[21] (56)

The Company shall cease to exist upon the occurrence of any of the events stipulated in Decree Law no. 25 of 2015, promulgating the Companies Law, and Law no. 32 of 1968, as amended, and the company shall enter the stage of liquidation.

Article[22] (57)

Liquidation of the Company's monies upon its dissolution shall be carried out pursuant to the provisions of Decree Law no. 25 of 2015, promulgating the Companies Law, as amended, and Law no. 32 of 1968, as amended

[21] Article no. 56 of the Articles of Association has been revised by virtue of notation in the Commercial Register on April 7th 2014
[22] Article no. 57 of the Articles of Association has been revised by virtue of notation in the Commercial Register on April 7th 2014

Article[23] (58)

The provisions of Decree Law no. 25 of 2015, promulgating the Companies Law, and Law no. 32 of 1968, as amended, and Law no. 30 of 2003 Adding the Islamic Banks Section to Chapter Three of Law no. 32 of 1968 Concerning the Currency, the Central banking of Kuwait and the Organization of the Banking Business shall apply.

This contract has been made as per letter of the Ministry of Commerce and Industry no. 8796, dated 13/3/2004, registered in the Companies and Contracts Authentication Office's Incoming Mail under no. 1502 on 13/3/2004.

First Party in his capacity	**Second Party in his capacity**
Bader Mohammed Abdullah Al-Saad	**Fahad Mazyed Al-Rajaan**

This contract has been made as per the aforementioned, and the present parties have affixed their signature thereon after reading it out to them.
The contract has been made in an original copy, and (8) copies, consisting of (16) pages, and this text without deletion or addition along with the attachments thereof.
Authentication Officer: Mamdouh Salem
Authentication Officer: Reda Bdeer Arafat

[23] Article no. 58 of the Articles of Association has been revised by virtue of notation in the Commercial Register on April 7th 2014

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

CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2018

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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 2018, 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 2018, 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 for use by the State of Kuwait.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the 'Auditors' responsibilities for the audit of the consolidated financial statements' section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (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 matters:

a) Credit losses on Islamic financing to customers

The recognition of credit losses on 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 on classification of credit facilities and calculation of their provision ("the CBK rules") as disclosed in the accounting policies and in Note 2.4 to the consolidated financial statements.

Recognition of ECL under IFRS 9, determined in accordance with CBK guidelines, is a new and complex accounting policy, which requires considerable judgement in its implementation. ECL is dependent on management's judgement in assessing significant increase in credit risk and classification of credit facilities into various stages, determining when a default has occurred, development of models for assessing the probability of default of customers and estimating cash flows from recovery procedures or realization of collateral. Recognition of specific provision on impaired facility under the CBK rules is based on the instructions by CBK on the minimum provision to be recognized together with any additional provision to be recognised based on management estimate of expected cash flows related to that credit facility.

Due to the significance of credit facilities and the related estimation uncertainty and judgement in the impairment calculation, this was considered as a key audit matter.

Our audit procedures included assessing the design and implementation of controls over, 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.

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 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. 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 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.

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)

a) Credit losses on Islamic financing to customers (continued)

Further, for the CBK rules provision requirements, we have assessed the criteria for determining whether there is a requirement to calculate any credit loss in accordance with the related regulations and, if required, it has been computed accordingly. For the samples selected, 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.

b) Impairment of investment in associates

During the year ended 31 December 2018, the Group has recognised an impairment loss of KD 8,442 thousand on associates as disclosed in Notes 8 and 16 to the consolidated financial statements. The impairment test of the investment in associates performed by the management is significant to our audit because the assessment of recoverable amount requires considerable judgment on the part of management. Estimates of recoverable amount is based on many estimates and judgments. Therefore, we identified the impairment testing of associates as a key audit matter.

We assessed the knowledge and expertise of the management of the Group to perform such valuations. Our audit procedures included assessing the reasonableness of assumptions and techniques used by the Group in estimating the impairment. We have also compared key inputs such as expected future cash flows, projected economic growth, and discount rates with available market information.

Our audit procedures also included assessment of the appropriateness of the valuation technique used and testing the key assumptions used in estimating the fair value less cost. Additionally, we performed sensitive analysis for changes to the key inputs.

The Bank's policy on assessing impairment on associates is disclosed in Notes 3.9 and 4.1 to the consolidated financial statements.

Other information included in the Group's 2018 Annual Report

Management is responsible for the other information. Other information consists of the information included in Group's 2018 Annual Report, other than the consolidated financial statements and our auditors' report thereon. We obtained the report of the Bank's Board of Directors, prior to the date of our auditor's report, and we expect to obtain the remaining sections of the Group's 2018 Annual Report 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.

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

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

Other information included in the Group's 2018 Annual Report (continued)

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.

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.

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)

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.

- 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.

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)

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, related safeguards.

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.

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 2/I.B.S. 343/2014 dated 21 October 2014 respectively, the Companies Law No 1 of 2016, as amended, and its executive regulations, as amended, and by the Bank's Memorandum of Incorporation and Articles of Association, 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 2/I.B.S. 343/2014 dated 21 October 2014 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 2018 that might have had a material effect on the business of the Bank or on its financial position.

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

Report on Other Legal and Regulatory Requirements (continued)

We further report that, during the course of our audit, we have not become aware of any violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the CBK and the organisation of banking business, and its related regulations during the year ended 31 December 2018 that might have had a material effect on the business of the Bank or on its financial position.

WALEED A. AL OSAIMI
LICENCE NO. 68 A
EY
(AL-AIBAN, AL-OSAIMI & PARTNERS)

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

10 January 2019
Kuwait

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2018

	Notes	**2018** **KD'000's**	2017 KD'000's
Income			
Islamic finance income	5	**182,942**	153,319
Finance cost and distribution to depositors		**(62,636)**	(45,955)
Net finance income		**120,306**	107,364
Net investment income	6	**1,051**	4,032
Net fees and commission income	7	**13,436**	11,134
Share of results of associates	16	**1,917**	559
Net foreign exchange gain		**3,011**	2,478
Operating income		**139,721**	125,567
Staff costs		**(33,633)**	(31,020)
General and administrative expenses		**(18,834)**	(17,918)
Depreciation		**(4,288)**	(3,939)
Operating expenses		**(56,755)**	(52,877)
Operating profit before provision for impairment		**82,966**	72,690
Provision for impairment	8	**(23,839)**	(22,427)
Operating profit before taxation and board of directors' remuneration		**59,127**	50,263
Taxation	9	**(2,557)**	(2,231)
Board of directors' remuneration		**(360)**	(360)
Net profit for the year		**56,210**	47,672
Attributable to:			
Equity holders of the Bank		**56,108**	47,605
Non-controlling interests		**102**	67
Net profit for the year		**56,210**	47,672
Basic and diluted earnings per share attributable to the equity holders of the Bank (fils)	10	**21.37**	17.81

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

For the year ended 31 December 2018

	2018	2017
	KD'000's	KD'000's
Net profit for the year	**56,210**	47,672
Other comprehensive income/(loss)		
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	**(454)**	(138)
Change in fair value of available for sale investments	**-**	298
Foreign currency translation adjustments	**(641)**	(177)
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	**(660)**	-
Other comprehensive loss for the year	**(1,755)**	(17)
Total comprehensive income for the year	**54,455**	47,655
Attributable to:		
Equity holders of the Bank	**54,353**	47,588
Non-controlling interests	**102**	67
Total comprehensive income for the year	**54,455**	47,655

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018 KD'000's	2017 KD'000's
Assets			
Cash and balances with banks	11	**83,805**	48,544
Deposits with Central Bank of Kuwait		**244,685**	310,420
Deposits with other banks	12	**237,088**	323,860
Islamic financing to customers	13	**3,262,285**	2,876,778
Investment in Sukuk	14	**309,339**	180,928
Other investment securities	14	**73,500**	52,383
Investments in associates	16	**28,916**	52,975
Investment properties	17	**24,036**	53,572
Other assets	18	**24,088**	16,579
Property and equipment		**57,036**	54,357
Total assets		**4,344,778**	3,970,396
Liabilities and Equity			
Liabilities			
Due to banks		**97,216**	67,474
Depositors' accounts		**3,720,935**	3,410,123
Other liabilities	19	**40,667**	40,442
Total liabilities		**3,858,818**	3,518,039
Equity			
Share capital	20	**238,847**	227,473
Share premium	21	**62,896**	62,896
Proposed bonus shares	22	**11,942**	11,374
Treasury shares	23	**(643)**	(1,122)
Statutory reserve	24	**25,251**	19,349
Other reserves	25	**19,165**	14,764
Retained earnings		**31,707**	24,122
Proposed cash dividends	22	**19,092**	15,900
Equity attributable to equity holders of the Bank		**408,257**	374,756
Perpetual Tier 1 Sukuk	26	**75,388**	75,388
Non-controlling interests		**2,315**	2,213
Total equity		**485,960**	452,357
Total liabilities and equity		**4,344,778**	3,970,396

Mahmoud Yousef Al-Fulaij
Chairman

Adel Abdul Wahab Al Majed
Vice Chairman & Chief Executive Officer

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Share capital	Share premium	Proposed bonus shares	Treasury shares	Statutory reserve	Other reserves (note 25)	Retained earnings	Proposed cash dividends	Equity attributable to equity holders of the Bank	Perpetual Tier 1 Sukuk	Non-controlling interests	Total equity
	KD'000's	KD'000's	KD'000's	KD'000's	KD'000's	KD'000's	KD'000's	KD'000's	KD'000's	KD'000's	KD'000's	KD'000's
Balance at 1 January 2018 (as originally stated)	227,473	62,896	11,374	(1,122)	19,349	14,764	24,122	15,900	374,756	75,388	2,213	452,357
Impact of adopting IFRS 9 at 1 January 2018 (note 2.4)	-	-	-	-	-	798	(831)	-	(33)	-	-	(33)
Balance at 1 January 2018 *(restated)*	227,473	62,896	11,374	(1,122)	19,349	15,562	23,291	15,900	374,723	75,388	2,213	452,324
Profit for the year	-	-	-	-	-	-	56,108	-	56,108	-	102	56,210
Other comprehensive loss	-	-	-	-	-	(1,755)	-	-	(1,755)	-	-	(1,755)
Total comprehensive (loss) / income for the year	-	-	-	-	-	(1,755)	56,108	-	54,353	-	102	54,455
Transfer to reserves	-	-	-	-	5,902	5,648	(11,550)	-	-	-	-	-
Issue of bonus shares	11,374	-	(11,374)	-	-	-	-	-	-	-	-	-
Cash dividend paid	-	-	-	-	-	-	-	(15,900)	(15,900)	-	-	(15,900)
Profit paid on Perpetual Tier 1 Sukuk	-	-	-	-	-	-	(5,108)	-	(5,108)	-	-	(5,108)
Share based payment (note 25)	-	-	-	-	-	48	-	-	48	-	-	48
Proposed bonus shares (note 22)	-	-	11,942	-	-	-	(11,942)	-	-	-	-	-
Sales of treasury shares	-	-	-	479	-	(338)	-	-	141	-	-	141
Proposed cash dividends (note 22)	-	-	-	-	-	-	(19,092)	19,092	-	-	-	-
Balance at 31 December 2018	238,847	62,896	11,942	(643)	25,251	19,165	31,707	19,092	408,257	75,388	2,315	485,960

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Share capital	Share premium	Proposed bonus shares	Treasury shares	Statutory reserve	Other reserves (note 25)	Retained earnings	Proposed cash dividends	Equity attributable to equity holders of the Bank	Perpetual Tier 1 Sukuk	Non-controlling interests	Total equity
	KD'000's	KD'000's	KD'000's	KD'000's	KD'000's	KD'000's	KD'000's	KD'000's	KD'000's	KD'000's	KD'000's	KD'000's
Balance at 1 January 2017	216,641	62,896	10,832	(1,438)	14,329	9,853	18,884	12,974	344,971	75,388	2,794	423,153
Profit for the year	-	-	-	-	-	-	47,605	-	47,605	-	67	47,672
Other comprehensive loss	-	-	-	-	-	(17)	-	-	(17)	-	-	(17)
Total comprehensive (loss) / income for the year	-	-	-	-	-	(17)	47,605	-	47,588	-	67	47,655
Capital increase by non-controlling interests	-	-	-	-	-	-	-	-	-	-	199	199
Transfer to reserves	-	-	-	-	5,020	4,797	(9,817)	-	-	-	-	-
Issue of bonus shares	10,832	-	(10,832)	-	-	-	-	-	-	-	-	-
Cash dividend paid	-	-	-	-	-	-	(5)	(12,974)	(12,979)	-	-	(12,979)
Profit paid on Perpetual Tier 1 Sukuk	-	-	-	-	-	-	(5,118)	-	(5,118)	-	-	(5,118)
Share based payment (note 25)	-	-	-	-	-	374	-	-	374	-	-	374
Sales of treasury shares	-	-	-	316	-	(243)	-	-	73	-	-	73
Proposed bonus shares (note 22)	-	-	11,374	-	-	-	(11,374)	-	-	-	-	-
Acquisition of non-controlling interests	-	-	-	-	-	-	(153)	-	(153)	-	(847)	(1,000)
Proposed cash dividends (note 22)	-	-	-	-	-	-	(15,900)	15,900	-	-	-	-
Balance at 31 December 2017	227,473	62,896	11,374	(1,122)	19,349	14,764	24,122	15,900	374,756	75,388	2,213	452,357

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

	Notes	2018 KD'000's	2017 KD'000's
OPERATING ACTIVITIES			
Net profit for the year		**56,210**	47,672
Adjustments for:			
Provision for impairment	8	**23,839**	22,427
Depreciation		**4,288**	3,939
Foreign currency translation adjustments		**6,456**	(2,284)
Net gain from sale of available for sale of investments		**-**	(492)
Unrealised gain from financial assets at fair value through profit or loss		**(279)**	(931)
Share of results of associates		**(1,917)**	(559)
Dividend income		**(1,416)**	(1,967)
Net unrealized loss from change in fair value of investment properties		**1,500**	995
Loss on derecognition of investment in associates		**404**	-
Share based payment reserve		**48**	341
Operating profit before changes in operating assets and liabilities		**89,133**	69,141
Changes in operating assets and liabilities:			
Deposits with Central Bank of Kuwait		**65,735**	(17,678)
Deposits with other banks		**86,696**	37,457
Islamic financing to customers		**(400,346)**	(370,000)
Other assets		**(7,509)**	(2,636)
Due to banks		**29,742**	(8,804)
Depositors' accounts		**310,812**	453,676
Other liabilities		**10**	14,238
Net cash generated from operating activities		**174,273**	175,394
INVESTING ACTIVITIES			
Purchase of investment securities		**(241,219)**	(128,067)
Proceeds from sale/redemption of investment securities		**98,583**	75,450
Dividends received from associates		**202**	-
Purchase of investment in associates		**(36)**	-
Proceeds from sale of investment securities		**29,300**	-
Purchase of investment properties		**(1,296)**	(29,440)
Purchase of property and equipment		**(6,967)**	(32,481)
Dividend income received		**1,416**	1,967
Net cash used in investing activities		**(120,017)**	(112,571)
FINANCING ACTIVITES			
Profit distribution on perpetual Tier 1 Sukuk		**(5,108)**	(5,118)
Capital increase by non-controlling interest		**-**	199
Proceeds from exercise of share options		**141**	73
Acquisition of non-controlling interests		**-**	(1,000)
Dividends paid		**(15,900)**	(12,979)
Net cash used in financing activities		**(20,867)**	(18,825)
Net increase in cash and cash equivalents		**33,389**	43,998
Cash and cash equivalents at the beginning of the year		**131,378**	87,380
Cash and cash equivalents at the end of the year	11	**164,767**	131,378

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

1. INCORPORATION AND ACTIVITIES

Boubyan Bank K.S.C.P ("the Bank") is a Kuwaiti public shareholding company incorporated on 21 September 2004, in accordance with the Commercial Companies Law in the State of Kuwait, by Amiri Decree No. 88, 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 CBK 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 **1,546** employees as at 31 December 2018 (1,382 employees as at 31 December 2017).

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 6 January 2019 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 require expected credit loss ("ECL") to be measured at the higher of the ECL on credit facilities computed under IFRS 9 in accordance to the CBK guidelines or the provisions as required by CBK instructions; the consequent impact on related disclosures; and the adoption of all other requirements of International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board ("IASB").

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.

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 IFRS 15 Revenue from Contracts with Customers and adoption of IFRS 9 Financial Instruments.

IFRS 15 - Revenue from Contracts with Customers

The Group has adopted IFRS 15 Revenue from Contracts with Customers effective from 1 January 2018. This standard supersedes IAS 11 Construction Contracts and IAS 18 Revenue along with related IFRIC 13, IFRIC 15, IFRIC 18 and SIC 31. This standard removes inconsistencies and weaknesses in previous revenue recognition requirements, provides a more robust framework for addressing revenue issues and improves comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets. The adoption of this standard does not result in any change in accounting policies of the Group and does not have any material effect on the Group's consolidated financial statements.

2. BASIS OF PREPARATION (CONTINUED)

2.4 Changes in accounting policies and disclosures (continued)

IFRS 9 - Financial Instruments

The Group has adopted IFRS 9 - Financial Instruments issued in July 2014 with a date of initial application of 1 January 2018, with the exception of requirements of the expected credit losses on financing facilities as noted in Note 2.1 above. The requirements of IFRS 9 represent a significant change from IAS 39 Financial Instruments: Recognition and Measurement. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

The Group has not restated comparative information for 2017 as permitted by the transitional provisions of the standard. Therefore, the information presented for 2017 does not reflect the requirements of IFRS 9 and is not comparable to the information presented for 2018. Differences in the carrying amount of financial assets resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018 and are disclosed below in note 2.4.

The key changes to the Group's accounting policies resulting from the adoption of IFRS 9 are summarised below:

Classification and Measurement of Financial assets

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminated the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. The adoption of IFRS 9 did not have a significant effect on the Group's accounting policies for financial liabilities.

Business model assessment

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

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

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

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

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

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

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

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

2. BASIS OF PREPARATION (CONTINUED)

2.4 Changes in accounting policies and disclosures (continued)

IFRS 9 - Financial Instruments (continued)

Classification and Measurement of Financial assets (continued)

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

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

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.

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

(i) Debt Securities (Sukuk) at FVOCI

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

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

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

(ii) Equity investments at FVOCI

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

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

2. BASIS OF PREPARATION (CONTINUED)

2.4 Changes in accounting policies and disclosures (continued)

IFRS 9 – Financial Instruments (continued)

Classification and Measurement of Financial assets (continued)

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.

Hedge accounting
The general hedge accounting requirements of IFRS 9 aim to simplify hedge accounting, creating a stronger link with risk management strategy and permitting hedge accounting to be applied to a greater variety of hedging instruments and risks. The adoption of general hedge accounting requirements of IFRS 9 does not result in any change in accounting policies of the Group and does not have any material effect on the Group's consolidated financial statements.

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.

Impairment of financial assets other than finance facilities

The Group recognises ECL on investment in debt securities at FVOCI and on balances and deposits with banks. Equity investments are not subject to expected credit losses.

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.

2. BASIS OF PREPARATION (CONTINUED)

2.4 Changes in accounting policies and disclosures (continued)

IFRS 9 – Financial Instruments (continued)

Impairment of financial assets (continued)

Expected Credit Losses (continued)

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.

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 cashflows 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.

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 cashflows due to the Group in accordance with the contract and the cashflows 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.

2. BASIS OF PREPARATION (CONTINUED)

2.4 Changes in accounting policies and disclosures (continued)

IFRS 9 – Financial Instruments (continued)

Impairment of financial assets (continued)

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. 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.

2. BASIS OF PREPARATION (CONTINUED)

2.4 Changes in accounting policies and disclosures (continued)

IFRS 9 – Financial Instruments (continued)

Impairment of financial assets (continued)

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

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.

IFRS 9 transition disclosures

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Group's financial assets as at 1 January 2018.

	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	Re-measurement – ECL	New carrying amount under IFRS 9
Financial assets			**KD'000's**	**KD'000's**	**KD'000's**
Balances and deposits with CBK and other banks	Loans and receivable	Amortised cost	663,804	(33)	663,771
Investments - Debt Sukuk	AFS	FVOCI	180,928	-	180,928
Investments - Funds	AFS	FVTPL	29,267	-	29,267
Investments - Equity	AFS	FVOCI	9,993	-	9,993
Investments - Equity	FVTPL	FVOCI	3,477	-	3,477
Other financial assets	Loans and receivable	Amortised cost	9,176	-	9,176

Adoption of IFRS 9 did not result in any change in classification or measurement of financial liabilities.

The adoption of IFRS 9 did not result in any change in the measurement of Islamic financing to customers. Islamic financing to customers are carried at amortised cost using effective yield method less any amounts written off and provision for impairment. The provision for impairment is based on the provisioning requirements of Central Bank of Kuwait as long as it is the higher.

The following table reconciles the closing impairment allowances for financial assets other than Islamic financing to customers determined in accordance with IAS 39 as at 31 December 2017 to the opening ECL allowances determined in accordance with IFRS 9 as at 1 January 2018.

	Impairment allowances under IAS 39 at 31 December 2017	Re-measurement	Expected credit losses under IFRS 9 at 1 January 2018
	KD'000's	**KD'000's**	**KD'000's**
Debt financial assets at FVOCI	**-**	**232**	**232**
Other financial assets at amortised cost	**-**	**33**	**33**
Total expected credit losses – ECL	**-**	**265**	**265**

2. BASIS OF PREPARATION (CONTINUED)

2.4 Changes in accounting policies and disclosures (continued)

IFRS 9 – Financial Instruments (continued)

IFRS 9 transition disclosures (continued)

The following table analyses the impact of transition to IFRS 9 on fair value reserve and retained earnings.

	Retained earnings	Fair value reserve
	KD'000's	KD'000's
Closing balance under IAS 39 (31 December 2017)	**24,122**	**3,859**
Impact on reclassification and re-measurements:		
Investment securities (funds) from available-for-sale to FVTPL	**(566)**	**566**
Impact on recognition of Expected Credit Losses on financial assets other than Islamic financing to customers:		
Expected Credit Losses under IFRS 9 for debt financial assets at FVOCI	**(232)**	**232**
Expected Credit Losses under IFRS 9 for financial assets at amortised cost	**(33)**	**-**
Opening balance under IFRS 9 on date of initial application of 1 January 2018	**23,291**	**4,657**

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

IFRS 16 "Leases"

In January 2016, the IASB issued IFRS 16 'Leases' with an effective date of annual periods beginning on or after 1 January 2019.

IFRS 16 results in lessees accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases are currently accounted for under IAS 17 'Leases'. Lessees will recognise a 'right of use' asset and a corresponding financial liability on the balance sheet. The asset will be amortised over the length of the lease and the financial liability measured at amortised cost. Lessor accounting remains substantially the same as in IAS 17. Based on a quantitative assessment carried out by the Group, the impact of adopting IFRS 16 on the Group's consolidated financial statements is not material.

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) and Boubyan Capital Investment Company K.S.C (Closed), as at 31 December 2018 and which are controlled by the Bank as set out in note 15.

3.1.1 Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. The Group controls an investee if and only if the Group has:

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

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Basis of consolidation (continued)

3.1.1 Business combinations (continued)

The Group measures goodwill at the acquisition date as:

- The fair value of the consideration transferred; plus
- The recognised amount of any non-controlling interests in the acquiree; plus
- If the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- The fair value of the identifiable assets acquired and liabilities assumed including contingent liabilities.

When the excess is negative, a bargain purchase gain is recognised immediately in the consolidated statement of profit or loss.

Transactions costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

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.

3.1.5 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Basis of consolidation (continued)

3.1.5 Investments in associates (equity-accounted investees) (continued)

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:

- 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.

3.4 Financial instruments

3.4.1 Financial assets

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Financial instruments (continued)

3.4.1 Financial assets (continued)

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.

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 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 net of provision for impairment.

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 - *Policy applicable from 1 January 2018*
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 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Financial instruments (continued)

3.4.1 Financial assets (continued)

Financial assets at fair value through profit or loss - ***Policy applicable before 1 January 2018***
A financial asset is classified as at fair value through profit or loss if it is classified as held for trading or is designated as such on initial recognition. Financial assets are designated as at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's strategy or such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise.

Attributable transaction costs are recognised in consolidated statement of profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value and changes therein, are recognised in consolidated statement of profit or loss.

Available for sale investment - ***Policy applicable before 1 January 2018***
Available for sale investments are non-derivative financial assets that are not classified in any of the above categories of financial assets.

Available for sale investment are recognised initially at fair value plus any directly attributable transaction costs.

Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available for sale debt instruments, are recognised in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognised or is determined to be impaired, the gain or loss accumulated in equity is reclassified to consolidated statement of profit or loss.

3.4.2 Financial liabilities

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

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

i) 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Financial instruments (continued)

3.4.3 Offsetting

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

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

3.5 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.

3.6 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.

3.7 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)

3.8 Property and equipment

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

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

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

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

- Furniture and leasehold improvement — 5 years
- Office equipment — 3 - 10 years
- Building on leasehold land — 20 years

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

3.9. Impairment

3.9.1 Financial assets – *Policy applicable from 1 January 2018*

The accounting policies for financial assets applicable from 1 January 2018 are disclosed in note 2.4 above.

3.9.2 Financial assets – *Policy applicable before 1 January 2018*

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. If such evidence exists, any impairment loss is recognised in the consolidated statement of profit or loss.

Financial assets measured at amortised cost

The amount of impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset’s original effective yield. Losses are recognised in the consolidated statement of profit or loss and reflected in an allowance account against Islamic financing to customers. When an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the consolidated statement of profit or loss.

Available for sale investment

Impairment losses on available for sale investment are recognised by reclassifying the losses accumulated in the other comprehensive income to consolidated statement of profit or loss. The cumulative loss that is reclassified from other comprehensive income to consolidated statement of profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss recognised previously in consolidated statement of profit or loss. If, in a subsequent period, the fair value of an impaired available for sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed, with the amount of the reversal recognised in consolidated statement of profit or loss. However, any subsequent recovery in the fair value of an impaired available for sale equity security is recognised in other comprehensive income.

3.9.3 Non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9. Impairment (continued)

3.9.3 Non-financial assets (continued)

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.

3.10 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.

3.11 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.

3.12 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.

3.13 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.

3.14 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)

3.14 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.

3.15 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.

3.16 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.

3.17 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.

3.18 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.

3.19 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. From 1 January 2018, the liability is measured based on the higher of ECL under IFRS 9 according to the CBK guidelines, and the provision required by CBK.

3.20 Fiduciary assets

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

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

4.1 Critical judgments in applying the Group's accounting policies

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

Fair value hierarchy

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

Impairment of investment in associates

The Group calculates the amount of impairment as the difference between the recoverable amount and its carrying value if there is any objective evidence that the investment in associates are impaired. The estimation of recoverable amount requires the Group to make an estimate of fair value less cost of disposal and selection of appropriate inputs for valuation.

Classification of financial assets – *Policy applicable from 1 January 2018*

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 2.4 classification of financial assets for more information.

4.2 Key sources of estimation uncertainty

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

Expected Credit Losses on financial assets – *Policy applicable from 1 January 2018*

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.

5. ISLAMIC FINANCE INCOME

Islamic finance income includes finance income from Islamic financing to customers of **KD 173,954 thousand** (2017: KD 149,431 thousand) and income from Sukuks of **KD 8,988 thousand** (2017: KD 3,888 thousand).

6. NET INVESTMENT INCOME

	2018	2017
	KD'000's	KD'000's
Dividend income	**1,416**	1,967
Net rental income from investment properties	**733**	1,604
Net gain from financial assets at fair value through profit or loss	**768**	931
Net gain from sale of available for sale of investments	**-**	492
Net gain from sale of debt investments at fair value through other comprehensive income	**38**	-
Loss on derecognition of investment in associates	**(404)**	-
Unrealized loss from changes in fair value of investment properties	**(1,500)**	(962)
	1,051	4,032

7. NET FEES AND COMMISSION INCOME

	2018	2017
	KD'000's	KD'000's
Gross fees and commission income	**19,962**	16,112
Fees and commission expenses	**(6,526)**	(4,978)
	13,436	11,134

8. PROVISION FOR IMPAIRMENT

	2018	2017
	KD'000's	KD'000's
Provision for impairment of finance facilities	**15,053**	10,257
ECL – Other financial assets	**344**	-
Impairment loss on investments in associates (note 16)	**8,442**	12,170
	23,839	22,427

The analysis of provision for impairment of finance facilities based on specific and general provision is as follows:

	Specific	General	Total
	KD'000's	KD'000's	KD'000's
Balance at 1 January 2017	12,244	45,045	57,289
Provided during the year	2,746	7,511	10,257
Recovery of written off balances	1,159	-	1,159
Written off balances during the year	(8,434)	-	(8,434)
Balance at 31 December 2017	7,715	52,556	60,271
Provided during the year	**14,717**	**336**	**15,053**
Recovery of written off balances	**603**	**-**	**603**
Written off balances during the year	**(4,710)**	**-**	**(4,710)**
Balance at 31 December 2018	**18,325**	**52,892**	**71,217**

8. PROVISION FOR IMPAIRMENT (CONTINUED)

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

	Islamic finance to customers	Non-cash facilities	Total
	KD'000's	KD'000's	KD'000's
Balance at 1 January 2017	55,594	1,695	57,289
Provided during the year	9,982	275	10,257
Recovery of written off balances	1,159	-	1,159
Written off balances during the year	(8,434)	-	(8,434)
Balance at 31 December 2017	58,301	1,970	60,271
Provided during the year	**14,293**	**760**	**15,053**
Recovery of written off balances	**603**	**-**	**603**
Written off balances during the year	**(4,710)**	**-**	**(4,710)**
Balance at 31 December 2018	**68,487**	**2,730**	**71,217**

At 31 December 2018, non-performing finance facilities amounted to **KD 9,983 thousand**, net of provision of **KD 18,325 thousand** (2017: KD 15,827 thousand, net of provision of KD 7,715 thousand). The analysis of specific and general provision stated above is based on Central Bank of Kuwait's instructions.

9. TAXATION

	2018	2017
	KD'000's	KD'000's
Contribution to Kuwait Foundation for the Advancement of Sciences ("KFAS")	**525**	448
National Labour Support Tax ("NLST")	**1,455**	1,281
Zakat (Based on Zakat law no: 46/2006)	**577**	502
	2,557	2,231

10. BASIC AND DILUTED EARNING PER SHARE

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

Diluted earnings per share is calculated by dividing the net profit for the year attributable to the equity holders of the Bank by the weighted average number of shares outstanding during the year plus the weighted average number of 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.

	2018	2017
Net profit for the year attributable to the equity holders of the Bank (KD'000's)	**56,108**	47,605
Less: profit payment on Perpetual Tier 1 Sukuk	**(5,108)**	(5,118)
	51,000	42,487
Weighted average number of shares outstanding during the year (thousands of shares)	**2,386,274**	2,384,991
Basic and diluted earnings per share attributable to the equity holders of the Bank (fils)	**21.37**	17.81

Earnings per share for the year ended 2017 was 18.71 fils per share before retroactive adjustment to the number of shares following the bonus issue (see note 22).

11. CASH AND CASH EQUIVALENTS

	2018	2017
	KD'000's	KD'000's
Cash and balances with banks	**83,805**	48,544
Placement with banks maturing within seven days	**80,962**	82,834
	164,767	131,378

12. DEPOSITS WITH OTHER BANKS

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

	2018	2017
	KD'000's	KD'000's
Kuwait & Middle East	**219,059**	299,851
Europe	**18,088**	24,009
	237,147	323,860
Less: expected credit losses (ECL)	**(59)**	-
	237,088	323,860

13. ISLAMIC FINANCING TO CUSTOMERS

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

	Kuwait & Middle East	**Europe**	**Asia**	**Total**
	KD'000's	**KD'000's**	**KD'000's**	**KD'000's**
2018				
Corporate banking	**1,838,474**	**-**	**728**	**1,839,202**
Consumer banking	**1,491,570**	**-**	**-**	**1,491,570**
	3,330,044	**-**	**728**	**3,330,772**
Less: provision for impairment	**(67,972)**	**-**	**(515)**	**(68,487)**
	3,262,072	**-**	**213**	**3,262,285**
2017				
Corporate banking	1,605,433	1,791	724	1,607,948
Consumer banking	1,327,131	-	-	1,327,131
	2,932,564	1,791	724	2,935,079
Less: provision for impairment	(58,241)	(18)	(42)	(58,301)
	2,874,323	1,773	682	2,876,778

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

	Specific		General		Total	
	2018	2017	**2018**	2017	**2018**	2017
	KD'000's	KD'000's	**KD'000's**	KD'000's	**KD'000's**	KD'000's
Balance at beginning of the year	**7,715**	12,244	**50,586**	43,350	**58,301**	55,594
Provided during the year	**14,173**	2,746	**120**	7,236	**14,293**	9,982
Recovery of written off balances	**603**	1,159	**-**	-	**603**	1,159
Written off balances during the year	**(4,710)**	(8,434)	**-**	-	**(4,710)**	(8,434)
Balance at end of the year	**17,781**	7,715	**50,706**	50,586	**68,487**	58,301

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

	Corporate banking		Consumer banking		Total	
	2018	2017	**2018**	2017	**2018**	2017
	KD'000's	KD'000's	**KD'000's**	KD'000's	**KD'000's**	KD'000's
Balance at beginning of the year	**1,176**	8,452	**6,539**	3,792	**7,715**	12,244
Provided during the year	**10,861**	312	**3,312**	2,434	**14,173**	2,746
Recovery of written off balances	**237**	820	**366**	339	**603**	1,159
Written off balances during the year	**(4,698)**	(8,408)	**(12)**	(26)	**(4,710)**	(8,434)
Balance at end of the year	**7,576**	1,176	**10,205**	6,539	**17,781**	7,715

13. ISLAMIC FINANCING TO CUSTOMERS (CONTINUED)

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:

	2018	2017
	KD'000's	KD'000's
Islamic financing to customers	**28,308**	23,542
Specific provision for impairment	**(18,325)**	(7,715)
	9,983	15,827

At 31 December 2018, management estimates the fair value of collaterals held against individually impaired Islamic finance facilities to be **KD 1,939 thousand** (2017: KD 12,073 thousand).

The ECL for Islamic financing to customers as at 31 December 2018 is **KD 49,914 thousand** which is lower than the provision for impairment of Islamic finance to customers required by CBK.

14. INVESTMENT SECURITIES

	2018	2017
	KD'000's	KD'000's
Investment in Sukuk - FVOCI	**309,339**	180,928
Financial assets at fair value through profit or loss	**42,760**	13,123
Available for sale investments	**-**	39,260
Financial assets at fair value through other comprehensive income	**30,740**	-
	382,839	233,311

	2018	2017
	KD'000's	KD'000's
Financial assets at fair value through profit or loss		
Investment in unquoted equity securities	**-**	3,477
Investment in unquoted equity funds	**42,760**	9,646
	42,760	13,123

	2018	2017
	KD'000's	KD'000's
Financial assets at fair value through other comprehensive income		
Investment in unquoted equity securities	**30,574**	-
Investment in quoted equity securities	**166**	-
	30,740	-

15. SUBSIDIARIES

Principal operating subsidiaries are as follows:

Name of subsidiary	Country of incorporation	Principal activity	**2018**	2017
			% 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	**99.76**	99.76

16. INVESTMENTS IN ASSOCIATES

Name of associate	Country of incorporation	Principal activity	**2018**	2017
			% Effective ownership	
Bank Syariah Muamalat Indonesia Tbk ("BSMI")	Indonesia	Islamic Banking	**-**	22.00
Bank of London and the Middle East ("BLME")	United Kingdom	Islamic Banking	**26.44**	26.40
United Capital Bank	Republic of Sudan	Islamic Banking	**21.67**	21.67
Saudi Projects Holding Group	Kuwait	Real Estate	**25.02**	25.02
Ijarah Indonesia Finance Company	Indonesia	Islamic financing	**-**	33.33

During the year the Group provided **KD 8,442** thousand (2017: KD 12,170 thousand) by way of impairment in respect of its associates. The impairment in respect of associates is calculated as the difference between fair value less cost of disposal and the carrying value. Fair value less cost of disposal is determined using market multiples

During the year, the Group discontinued the use of equity method for an associate due to loss of significant influence and has accordingly reclassified the investment as fair value through other comprehensive income. The Group has recorded a net loss of **KD 404 thousand** in consolidated statement of profit or loss as a result of this reclassification.

Summarized financial information in respect of Bank of London and the Middle East ("BLME") is set out below:

	2018	2017
	KD'000's	KD'000's
Total assets	**428,435**	418,810
Total liabilities	**(335,906)**	(330,223)
Net assets	**92,529**	88,587
Group's share of net assets	**24,465**	26,690

	2018	2017
	KD'000's	KD'000's
Total revenue	**11,375**	8,077
Net profit	**4,111**	1,346
Group's share of results	**1,250**	(199)

17. INVESTMENT PROPERTIES

The movement in the investment properties is as follows:

	2018	2017
	KD'000's	KD'000's
Balance at the beginning of the year	**53,572**	24,680
Additions during the year	**1,437**	29,440
Disposals during the year	**(29,300)**	-
Net unrealized loss from change in fair value of investment properties	**(1,500)**	(995)
Foreign currency translation adjustments	**(173)**	447
Balance at the ending of the year	**24,036**	53,572

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 2018.

18. OTHER ASSETS

	2018	2017
	KD'000's	KD'000's
Accrued income	**3,768**	1,942
Prepayments	**5,708**	5,461
Others	**14,612**	9,176
	24,088	16,579

19. OTHER LIABILITIES

	2018	2017
	KD'000's	KD'000's
Creditors and accruals	**11,568**	12,902
Accrued staff benefits	**8,225**	6,799
Post Employment Benefit	**7,802**	6,704
General provision on non-cash facilities	**2,730**	1,970
Others	**10,342**	12,067
	40,667	40,442

Post-Employment Benefit

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

20. SHARE CAPITAL

	2018		2017	
	Shares	**KD'000's**	Shares	KD'000's
Shares authorised, issued and paid up of 100 fils each comprised of 2,274,734,860 shares (2017: 2,166,414,153 shares) fully paid in cash and 113,736,743 shares (2017: 108,320,707 shares) issued as bonus shares during the year.	**2,388,471,603**	**238,847**	2,274,734,860	227,473

21. SHARE PREMIUM

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

22. PROPOSED DIVIDEND

The board of directors recommended distribution of cash dividends of **8 fils** per share (2017: 7 fils) and bonus shares of **5%** (2017: 5%) for the year ended 31 December 2018. The proposed dividends, if approved by the shareholders' general assembly, shall be payable to the shareholders after obtaining the necessary regulatory approvals.

23. TREASURY SHARES

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

	2018	2017
Number of treasury shares	**2,027,659**	3,323,164
Treasury shares as a percentage of total issued shares - %	**0.0849%**	0.1461%
Cost of treasury shares – KD thousand's	**643**	1,122
Market value of treasury shares – KD thousand's	**1,135**	1,449
Weighted average of market value per share (fils)	**0.508**	0.424

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

24. STATUTORY RESERVE

In accordance with the Companies Law No. 1 of 2016 and the Bank's Memorandum of Incorporation and Articles of Association, 10% of 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. The Bank may resolve to discontinue such annual transfers when the reserve equals 50% of the capital. This reserve is not available for distribution except in cases stipulated by law and the Bank's Articles of Association.

25. OTHER RESERVES

	Voluntary reserve	**Share based payment reserve**	**Fair value reserve**	**Foreign currency translatio n reserve**	**Total**
	KD'000's	**KD'000's**	**KD'000's**	**KD'000's**	**KD'000's**
Balance at 1 January 2018 (as originally stated)	**18,510**	**1,671**	**3,859**	**(9,276)**	**14,764**
Impact of adopting IFRS 9 at 1 January 2018 (note 2.4)	**-**	**-**	**798**	**-**	**798**
Balance at 1 January 2018	**18,510**	**1,671**	**4,657**	**(9,276)**	**15,562**
Other comprehensive loss	**-**	**-**	**(1,114)**	**(641)**	**(1,755)**
Total comprehensive loss for the year	**-**	**-**	**(1,114)**	**(641)**	**(1,755)**
Transfer to reserves	**5,648**	**-**	**-**	**-**	**5,648**
Share based payment	**-**	**48**	**-**	**-**	**48**
Sales of treasury shares	**-**	**(338)**	**-**	**-**	**(338)**
Balance at 31 December 2018	**24,158**	**1,381**	**3,543**	**(9,917)**	**19,165**

	Voluntary reserve	Share based payment reserve	Fair value reserve	Foreign currency translation reserve	Total
	KD'000's	KD'000's	KD'000's	KD'000's	KD'000's
Balance at 1 January 2017	13,713	1,540	3,699	(9,099)	9,853
Other comprehensive income /(loss)	-	-	160	(177)	(17)
Total comprehensive income / (loss) for the year	-	-	160	(177)	(17)
Transfer to reserves	4,797	-	-	-	4,797
Share based payment	-	374	-	-	374
Sales of treasury shares	-	(243)	-	-	(243)
Balance at 31 December 2017	18,510	1,671	3,859	(9,276)	14,764

Voluntary reserve

As required by the Bank's Articles of Association, 10% of 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 23).

25. OTHER RESERVES (CONTINUED)

Share based payment reserve

The Bank operates an equity settled share based compensation plan and granted share options to its senior executives. These options will vest if the employees remain in service for a period of three years from the grant date and the employees can exercise the options within one year from the vesting date. If the exercise price is not paid within one year from date of vesting, the options vested will be cancelled. The exercise price of the granted options is equal to 100 fils per share.

No options were granted during the year.The weighted average remaining life of the share options was **360 days** (2017: 569 days) and the weighted average fair value of share options granted was **348 fils** (2017: 334 fils).

The following table shows the movement in number of share options during the year:

	2018 Number of share options	2017 Number of share options
Outstanding at 1 January	**3,341,369**	4,626,940
Granted during the year	**-**	-
Cancelled during the year	**(164,092)**	(400,155)
Exercised during the year	**(1,418,776)**	(885,416)
Outstanding at 31 December	**1,758,501**	3,341,369

The expense accrued on account of share based compensation plans for the year amounts to **KD 48 thousand** (2017: KD 374 thousand) and is included under staff costs in the consolidated statement of profit or loss. During the year certain employees have exercised their stock options of **1,419 thousand shares** (2017: 885 thousands shares) and these shares have been issued from treasury shares held by the Bank.

26. 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.

At the issuer’s sole discretion, it may elect not to make any Mudaraba distributions expected and in such event, the Mudaraba profit will not be accumulated and the event is not considered an event of default.

27. RELATED PARTY TRANSACTIONS

Related parties comprise the major shareholders, board of directors, entities controlled by them or under their joint control, associates, key management personnel and their close family members and the Parent Company including their board members, key management personnel, branches, associates and subsidiaries. Balances with related parties arise from commercial transactions in the normal course of business 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			
	2018	2017	**2018**	2017	**2018**	2017
					KD'000's	KD'000's
Islamic financing to customers	**7**	8	**2**	2	**5,157**	7,717
Depositors' accounts	**5**	18	**9**	9	**3,028**	10,023
Letters of guarantee and letters of credit	**-**	2	**-**	1	**-**	29
Murabaha and other Islamic financing income					**231**	144
Finance cost and distribution to depositors					**(87)**	(182)
Parent Company						
Due from banks					**43,139**	128,711
Due to banks					**59,140**	35,883
Murabaha and other Islamic financing income					**1,617**	1,583
Finance cost and distribution to depositors					**(664)**	(162)

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 21,649 thousand** as at 31 December 2018 (2017: KD 7,834 thousand).

Compensation of key management personnel:

Details of compensation for key management comprise the following:

	2018	2017
	KD'000's	KD'000's
Short-term benefits	**2,061**	1,853
Post-employment benefits	**364**	560
Share based compensation	**580**	531
	3,005	2,944

Senior executive officers also participate in the Group's share based payment programme (see note 25).

During the year the Group had contracted with the Parent Company for acquiring a property amounting to **KD 8,000** thousand which had not yet been finalised as of 31 December 2018 and recognized as capital commitment in the consolidated financial statements.

28. CONTINGENCIES AND COMMITMENTS

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

	2018	2017
	KD'000's	KD'000's
Guarantees	**264,940**	239,409
Acceptances and letters of credit	**91,632**	84,330
Other commitments	**9,278**	1,278
	365,850	325,017

Operating lease commitments:

Future minimum lease payments:

	2018	2017
	KD'000's	KD'000's
Within one year	**2,845**	2,835
After one year but not more than five years	**2,919**	2,717
Total operating lease expenditure contracted for at the reporting date	**5,764**	5,552

29. SEGMENT REPORTING

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

Business Segments

For management purposes, the 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: Principally handling direct investments, investment in associates, local and international real estate investment and asset management.

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

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

	Consumer banking	Corporate banking	Investment banking	Treasury	Group centre	Total
2018	**KD'000's**	**KD'000's**	**KD'000's**	**KD'000's**	**KD'000's**	**KD'000's**
Net financing income/(loss)	**64,924**	**36,858**	**(2,896)**	**11,350**	**10,070**	**120,306**
Share of results of associates	**-**	**-**	**1,917**	**-**	**-**	**1,917**
Operating income	**71,525**	**44,503**	**4,248**	**14,361**	**5,084**	**139,721**
Depreciation	**(2,550)**	**(87)**	**(64)**	**(28)**	**(1,559)**	**(4,288)**
Net profit/(loss) for the year	**38,078**	**31,827**	**(8,044)**	**13,803**	**(19,454)**	**56,210**
Total assets	**1,489,285**	**2,216,460**	**152,848**	**460,078**	**26,107**	**4,344,778**
Total liabilities	**1,991,298**	**219,032**	**16,040**	**1,616,832**	**15,616**	**3,858,818**
2017						
Net financing income	58,035	32,359	1,007	12,088	3,875	107,364
Share of results of associates	-	-	559	-	-	559
Operating income/(loss)	62,538	41,967	8,161	14,565	(1,664)	125,567
Depreciation	(2,349)	15	(39)	(23)	(1,543)	(3,939)
Net profit/(loss) for the year	34,540	36,706	(6,906)	14,110	(30,778)	47,672
Total assets	1,323,618	1,848,673	195,633	618,771	(16,299)	3,970,396
Total liabilities	1,540,167	250,435	54,598	1,674,822	(1,983)	3,518,039

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	Asia	Total
	KD'000's	**KD'000's**	**KD'000's**	**KD'000's**	**KD'000's**
2018					
Assets	**4,143,391**	**4,007**	**74,813**	**122,567**	**4,344,778**
Non-current assets (excluding financial instruments)	**101,982**	**-**	**5,482**	**26,613**	**134,077**
Liabilities and equity	**4,344,144**	**66**	**558**	**10**	**4,344,778**
Segment income	**134,743**	**2**	**2,691**	**2,285**	**139,721**
2017					
Assets	3,779,158	4,521	95,006	91,711	3,970,396
Non-current assets (excluding financial instruments)	125,804	-	36,475	15,204	177,483
Liabilities and equity	3,969,086	-	1,310	-	3,970,396
Segment income	123,369	-	745	1,453	125,567

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

30.1 Introduction and overview

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

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

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

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

As part of its overall risk management, the Group uses financial instruments to manage exposures resulting from changes in foreign exchange and equity risks. Collateral is used to reduce the Group's credit risk.

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

30.2 Credit risk

30.2.1 Assessment of expected credit losses

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

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

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

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

The Group further limits risk through diversification of its assets by industry sector. In addition, all credit facilities are continually monitored based on a periodical review of the credit performance and account rating.
The Group considers a financial asset to be in default and therefore Stage 3 (credit impaired) for ECL calculations when:

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

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.2 Credit risk (continued)

30.2.1 Assessment of expected credit losses (continued)

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.

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 of the asset. 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 and financing.

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

Incorporation of forward-looking information

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

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.2 Credit risk (continued)

30.2.1 Assessment of expected credit losses (continued)

Internal rating and PD estimation process (continued)

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

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

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

Exposure at default

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

Loss given default

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

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

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

	2018		2017	
	Gross exposure	**Net exposure**	Gross exposure	Net exposure
	KD'000's	**KD'000's**	KD'000's	KD'000's
Islamic financing to customers	**3,262,285**	**2,153,771**	2,876,778	1,915,284
Contingent liabilities and capital commitments	**365,850**	**353,931**	325,017	240,291

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.

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.2 Credit risk (continued)

30.2.3 Risk Concentration of the maximum exposure to credit risk

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

Credit risk can also arise due to a significant concentration of Group's assets to any single counterparty. This risk is managed by diversification of the portfolio. The 20 largest facilities outstanding as a percentage of gross facilities as at 31 December 2018 are **23.40%** (2017: 22.23%).

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**	**Asia**	**Total**
	KD'000's	**KD'000's**	**KD'000's**	**KD'000's**	**KD'000's**
2018					
Balances with banks	**45,649**	**4,007**	**559**	**51**	**50,266**
Deposits with Central Bank of Kuwait	**244,685**	**-**	**-**	**-**	**244,685**
Deposits with other banks	**219,000**	**-**	**18,088**	**-**	**237,088**
Islamic financing to customers	**3,262,072**	**-**	**-**	**213**	**3,262,285**
Investment in Sukuk	**197,319**	**-**	**4,612**	**107,408**	**309,339**
Other assets (excluding accrued income and prepayments)	**14,613**	**-**	**-**	**-**	**14,613**
	3,983,338	**4,007**	**23,259**	**107,672**	**4,118,276**
Contingent liabilities	**347,276**	**-**	**1,272**	**8,024**	**356,572**
Commitments	**9,278**	**-**	**-**	**-**	**9,278**
Total credit risk exposure	**4,339,892**	**4,007**	**24,531**	**115,696**	**4,484,126**

	Middle East & North Africa	North America	Europe	Asia	Total
	KD'000's	KD'000's	KD'000's	KD'000's	KD'000's
2017					
Balances with banks	13,327	4,521	1,134	39	19,021
Deposits with Central Bank of Kuwait	310,420	-	-	-	310,420
Deposits with other banks	294,841	-	29,019	-	323,860
Islamic financing to customers	2,874,323	-	1,773	682	2,876,778
Investment in Sukuk	100,548	-	4,588	75,792	180,928
Other assets (excluding accrued income and prepayments)	9,176	-	-	-	9,176
	3,602,635	4,521	36,514	76,513	3,720,183
Contingent liabilities	315,025	-	689	8,025	323,739
Commitments	1,278	-	-	-	1,278
Total credit risk exposure	3,918,938	4,521	37,203	84,538	4,045,200

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.2 Credit risk (continued)

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

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

	2018	2017
	KD'000's	KD'000's
Trading	**115,257**	117,283
Manufacturing	**166,755**	135,741
Banking and other financial institutions	**519,717**	570,269
Construction	**62,856**	56,599
Real Estate	**899,883**	769,852
Retail	**1,423,554**	1,265,383
Government	**397,644**	366,938
Others	**532,610**	438,118
	4,118,276	3,720,183

30.2.4 Credit quality per class of financial assets

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

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

	Neither past due nor impaired		**Past due or impaired**	**Total**
	High	**Standard**		
	KD'000's	**KD'000's**	**KD'000's**	**KD'000's**
2018				
Balances with banks	**50,266**	**-**	**-**	**50,266**
Deposits with Central Bank of Kuwait	**244,685**	**-**	**-**	**244,685**
Deposits with other banks	**237,088**	**-**	**-**	**237,088**
Islamic financing to customers	**3,032,967**	**228,474**	**69,331**	**3,330,772**
Investment in Sukuk	**309,339**	**-**	**-**	**309,339**
Other assets (excluding accrued income and prepayment)	**14,613**	**-**	**-**	**14,613**
	3,888,958	**228,474**	**69,331**	**4,186,763**

	Neither past due nor impaired		Past due or impaired	Total
	High	Standard		
	KD'000's	KD'000's	KD'000's	KD'000's
2017				
Balances with banks	19,021	-	-	19,021
Deposits with Central Bank of Kuwait	310,420	-	-	310,420
Deposits with other banks	323,860	-	-	323,860
Islamic financing to customers	2,649,853	210,462	74,764	2,935,079
Investment in Sukuk	180,928	-	-	180,928
Other assets (excluding accrued income and prepayment)	9,176	-	-	9,176
	3,493,258	210,462	74,764	3,778,484

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.2 Credit risk (continued)

30.2.4 Credit quality per class of financial assets (continued)

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
2018						
Up to 30 days	**8,089**	**5,090**	**16,499**	**33**	**24,588**	**5,123**
31 – 60 days	**4,179**	**15**	**4,936**	**10**	**9,115**	**25**
61 – 90 days	**4,090**	**86**	**3,230**	**15**	**7,320**	**101**
91 – 180 days	**-**	**3,473**	**-**	**4,380**	**-**	**8,153**
More than 180 days	**-**	**4,516**	**-**	**10,390**	**-**	**14,906**
	16,358	**13,180**	**24,665**	**15,128**	**41,023**	**28,308**
2017						
Up to 30 days	21,474	1,678	16,548	-	38,022	1,678
31 – 60 days	3,184	158	4,929	-	8,113	158
61 – 90 days	2,505	-	2,582	-	5,087	-
91 – 180 days	-	7,274	-	2,845	-	10,119
More than 180 days	-	5,020	-	6,567	-	11,587
	27,163	14,130	24,059	9,412	51,222	23,542

At 31 December 2018 management estimates the fair value of collaterals held against individually past due or impaired Islamic finance facilities to KD **6,819 thousand** (2017: KD 14,671 thousand).

30.3 Market risk

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

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.

30.4 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.

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.4 Foreign currency risk (continued)

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.

		2018		2017	
		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	**(1,422)**	**-**	(58)	-
Sterling Pound	+5	**(68)**	**-**	(19)	-
Euro	+5	**-**	**-**	(6)	-
Indonesian Rupiah	+5	**-**	**755**	-	760
Sudanese Pound	+5	**10**	**38**	50	139
Japanese Yen	+5	**2**	**-**	2	-
Others	+5	**19**	**-**	(7)	-

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 (2017:available for sale), a five percent increase in stock prices as at 31 December 2018 would have increased equity by **KD 8 thousand** (2017: an increase of KD 10 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.

30.5 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.

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.5 Liquidity risk (continued)

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

	Up to three months 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**
2018					
Assets					
Cash and balances with banks	**83,805**	**-**	**-**	**-**	**83,805**
Deposits with Central Bank of Kuwait	**106,871**	**95,501**	**42,313**	**-**	**244,685**
Deposits with Banks	**237,088**	**-**	**-**	**-**	**237,088**
Islamic financing to customers	**1,217,734**	**291,434**	**217,168**	**1,535,949**	**3,262,285**
Investment in sukuk	**264,962**	**-**	**-**	**44,377**	**309,339**
Other investment securities	**-**	**-**	**-**	**73,500**	**73,500**
Investments in associates	**-**	**-**	**-**	**28,916**	**28,916**
Investment properties	**-**	**-**	**-**	**24,036**	**24,036**
Other assets	**14,613**	**-**	**9,475**	**-**	**24,088**
Property and equipment	**-**	**-**	**-**	**57,036**	**57,036**
Total assets	**1,925,073**	**386,935**	**268,956**	**1,763,814**	**4,344,778**
Liabilities and Equity					
Due to banks	**97,216**	**-**	**-**	**-**	**97,216**
Depositors' accounts	**2,211,054**	**418,497**	**811,616**	**279,768**	**3,720,935**
Other liabilities	**10,342**	**-**	**11,568**	**18,757**	**40,667**
Equity	**-**	**-**	**-**	**485,960**	**485,960**
Total liabilities and equity	**2,318,612**	**418,497**	**823,184**	**784,485**	**4,344,778**

	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
2017					
Assets					
Cash and balances with banks	48,544	-	-	-	48,544
Deposits with Central Bank of Kuwait	138,385	105,474	21,142	45,419	310,420
Deposits with Banks	323,860	-	-	-	323,860
Islamic financing to customers	1,104,893	250,790	138,871	1,382,224	2,876,778
Investment in sukuk	152,902	-	-	28,026	180,928
Other investment securities	-	-	-	52,383	52,383
Investments in associates	-	-	-	52,975	52,975
Investment properties	-	-	-	53,572	53,572
Other assets	9,176	-	7,403	-	16,579
Property and equipment	-	-	-	54,357	54,357
Total assets	1,777,760	356,264	167,416	1,668,956	3,970,396
Liabilities and Equity					
Due to banks	67,474	-	-	-	67,474
Depositors' accounts	2,235,047	349,973	578,085	247,018	3,410,123
Other liabilities	12,068	-	12,901	15,473	40,442
Equity	-	-	-	452,357	452,357
Total liabilities and equity	2,314,589	349,973	590,986	714,848	3,970,396

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.5 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**
2018					
Financial liabilities					
Due to banks	**100,899**	**-**	**-**	**-**	**100,899**
Depositors' accounts	**2,225,699**	**426,442**	**818,616**	**302,318**	**3,773,075**
	2,326,598	**426,442**	**818,616**	**302,318**	**3,873,974**
Contingent liabilities and capital commitments					
Contingent liabilities	**127,538**	**46,517**	**83,335**	**99,182**	**356,572**
Capital commitments	**-**	**-**	**9,278**	**-**	**9,278**
	127,538	**46,517**	**92,613**	**99,182**	**365,850**

	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
2017					
Financial liabilities					
Due to banks	67,491	-	-	-	67,491
Depositors' accounts	2,240,474	357,358	578,672	265,791	3,442,295
	2,307,965	357,358	578,672	265,791	3,509,786
Contingent liabilities and capital commitments					
Contingent liabilities	117,249	44,553	65,177	96,760	323,739
Capital commitments	-	-	1,278	-	1,278
	117,249	44,553	66,455	96,760	325,017

30.6 Operational risk

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

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

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

30.7 Fair value of financial instruments

Fair values are obtained from quoted market prices, discounted cash flow models and other models as appropriate. The carrying values of financial instruments are approximate to their fair values as at 31 December 2018 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).

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.7 Fair value of financial instruments (continued)

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).

2018	**Level 1 KD'000's**	**Level 2 KD'000's**	**Level 3 KD'000's**	**Total KD'000's**
Financial assets at fair value through profit or loss	**-**	**42,760**	**-**	**42,760**
Investment in Sukuk - FVOCI	**309,339**	**-**	**-**	**309,339**
Financial assets at fair value through other comprehensive income	**166**	**-**	**30,574**	**30,740**
	309,505	**42,760**	**30,574**	**382,839**
2017				
Financial assets at fair value through profit or loss	-	9,646	3,477	13,123
Available for sale investments	205	29,267	9,788	39,260
Investment in Sukuk	180,928	-	-	180,928
	181,133	38,913	13,265	233,311

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

	At 1 January 2018 KD'000's	**Change in fair value KD'000's**	**Additions/ transfers KD'000's**	**Sale/ redemption KD'000's**	**Exchange rate movements KD'000's**	**At 31 December 2018 KD'000's**
31 December 2018:						
Assets measured at fair value						
Financial assets at fair value through profit or loss	**3,477**	**-**	**(3,477)**	**-**	**-**	**-**
Available for sale investments	**9,788**	**-**	**(9,788)**	**-**	**-**	**-**
Financial assets at fair value through other comprehensive income	**-**	**(612)**	**30,882**	**(141)**	**445**	**30,574**
	13,265	**(612)**	**17,617**	**(141)**	**445**	**30,574**

	At 1 January 2017 KD'000's	Change in fair value KD'000's	Additions/ transfers KD'000's	Sale/ redemption KD'000's	Exchange rate movements KD'000's	At 31 December 2017 KD'000's
31 December 2017:						
Assets measured at fair value						
Financial assets at fair value through profit or loss	2,987	379	-	111	-	3,477
Available for sale investments	10,097	(107)	-	15	(217)	9,788
	13,084	272	-	126	(217)	13,265

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.7 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 2018 are not material.

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

30.8 Capital management

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

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

The Group's regulatory capital and capital adequacy ratios for the years ended 31 December 2018 and 31 December 2017 are calculated in accordance with Central Bank of Kuwait circular number 2/RB, RBA/336/2014 dated 24 June 2014 related to Basel III regulations which are shown below:

	2018	2017
	KD'000's	KD'000's
Risk weighted assets	**2,704,257**	2,290,189
Capital required	**365,075**	309,175
Capital available		
Common Equity Tier 1 Capital	**385,348**	343,410
Additional Tier 1 Capital	**75,658**	75,531
Tier 1 Capital	**461,006**	418,941
Tier 2 Capital	**30,871**	25,520
Total Capital	**491,877**	444,461
Common Equity Tier 1 Capital Adequacy Ratio	**14.25%**	14.99%
Tier 1 Capital Adequacy Ratio	**17.05%**	18.29%
Total Capital Adequacy Ratio	**18.19%**	19.41%

The Group's financial leverage ratio for the year ended 31 December 2017 is calculated in accordance with Central Bank of Kuwait circular number 2/RBA/ 343/2014 dated 21 October 2014 and is shown below:

	2018	2017
	KD'000's	KD'000's
Tier 1 Capital	**461,006**	418,941
Total Exposures	**4,606,606**	4,186,179
Financial Leverage Ratio	**10.01%**	10.01%

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 2018 are included under the 'Risk Management' section of the annual report.

31. DERIVATIVES

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

Currency swaps

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

Profit rate swaps

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

Forward foreign exchange

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:

	2018			2017		
	Positive fair value	**Negative fair value**	**Notional**	Positive fair value	Negative fair value	Notional
	KD'000's	**KD'000's**	**KD'000's**	KD'000's	KD'000's	KD'000's
Profit rate swaps (held as fair value hedges)	**3,288**	**(219)**	**203,116**	-	-	-
Cross currency swap	**-**	**-**	**60,800**	-	-	-
	3,288	**(219)**	**263,916**	-	-	-

32. FIDUCIARY ASSETS

The aggregate value of assets held in a trust or fiduciary capacity by the Group amounted to **KD 237,480 thousand** (2017: KD 135,689 thousand) and the related income from these assets amounted to **KD 2,943 thousand** (2017: KD 811 thousand).