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

Boubyan Bank (K.S.C.P) Shareholders' Public Subscription Prospectus in the Share Capital Increase

Offering/Subscription Period
From May 15th 2022 to June 19th 2022

Date of the Subscription Prospectus
April 24th 2022

Contents

Background

Boubyan Bank K.S.C.P. **("The Bank", "Boubyan", "Boubyan Bank" or the "Issuer")** was established as a Kuwaiti public shareholding company on April 18th 2004 as per the Commercial Companies Law applicable in the State of Kuwait, by virtue of the Amiri Decree no. 88/2004, and according to the rules and instructions of the 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 333,868,248.400** (Three hundred thirty three million, eight hundred sixty eight thousand, and two hundred forty eight Kuwaiti Dinar/400 fils) allocated to **3,338,682,484** (three billion, three hundred thirty eight million, six hundred eighty two thousand, and four hundred eighty four) shares at a value of 100 Fils (One Hundred Fils) per share ("issued shares") 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 **400,000,000** (four hundred million) ordinary shares ("Issue/Offering Shares") at an issue price of **500 Fils** (five hundred Kuwaiti Fils) per share ("Issue/Offering Price") of which 100 Fils (one hundred Fils) is the nominal value and 400 Fils (four hundred Fils) is the share premium. The Issue represents an increase in the total authorized and issued shares from **3,338,682,484** (three billion, three hundred thirty eight million, six hundred eighty two thousand, and four hundred eighty four) shares to **3,738,682,484** (three billion, seven hundred thirty eight million, six hundred eighty two thousand, and four hundred eighty four) shares at an increase by **11.98%** (eleven point ninety eight percent) of the Bank's current authorized and issued capital.

Shareholders ("**Eligible Shareholders**") whose names are recorded in the Bank's Shareholders Register held with Kuwait Clearing Company ("**Clearing & Depository Agent**") as at May 11th 2022 ("**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 in proportion to his/her/its shareholding percentage ("the pre-emption right") in addition to those to whom pre-emption rights were transferred during the trading period of Pre-Emptive Rights ("**Owners of Pre-emptive Rights**"). 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 (**"Date of Suspending Pre-emptive Rights" or "Ex Date"**) 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 **11.98%** (eleven point ninety eight 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 **11.98%** (eleven point ninety eight 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 to non-shareholders for the remaining number of shares after the period allocated for exercising pre-emption rights. 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 **373,868,248.400** (Three hundred seventy three million, eight hundred sixty eight thousand, and two hundred forty eight Kuwaiti Dinar/400 fils) allocated to **3,738,682,484** (three billion, seven hundred thirty eight million, six hundred eighty two thousand, and four hundred eighty four) **shares**. The total value of the offering shall be KD **200,000,000** (Two hundred million Kuwaiti Dinars) in cash ("Issue Proceeds"), inclusive of a nominal value of 100 Fils and a share premium of 400 Fils. The issue proceeds will be used to enhance the Bank's capital base in accordance with the Basel III Capital Adequacy Framework and for the Bank's general objectives (see "Use of offering Proceeds" section). In case of non-subscription for any 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 February 2nd 2022, the Bank's Board of Directors recommended increasing the Bank's authorized, issued and paid up capital from **3,338,682,484** (three billion, three hundred thirty eight million, six hundred eighty two thousand, and four hundred eighty four) shares to **3,738,682,484** (three billion, seven hundred thirty eight million, six hundred eighty two thousand, and four hundred eighty four) **shares** through the issuance of **400,000,000 ordinary shares** (four hundred million ordinary shares) of issued shares at 500 Fils (five hundred Kuwaiti 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 have affirmed the recommendation of the Board of Directors to increase the Bank's authorized, issued and paid-up share capital by **400,000,000** (four hundred million) **ordinary shares** at an issue premium of 400 (four hundred) 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 share registry as at May 11th 2022 ("The Record Date"), each shareholder according to his/her/its shareholding percentage in the Bank's share capital.

Additional 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 any new shares is not exercised, unsubscribed shares shall be disposed of as per the Law. The Board of Directors shall be authorized to call capital increase and determine all controls, rules, terms and conditions of subscription and disposal of share fractions, if any. Following perusal of the subscription prospectus, the Sharia Supervisory Board has decided that there are no Sharia impediments to the increase of the Bank's share capital as set forth in detail 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 the issuance of 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 January 31st 2022, CBK approved Boubyan Bank's application to increase its share capital by **400,000,000 ordinary shares** (four hundred million ordinary shares) by issuing new ordinary shares to be offered for public subscription, at an issue premium of 400 (four hundred) Fils per share added to the nominal value of 100 (One Hundred) fils per share. In addition, on February 10th 2022 the Capital Markets Authority approved the capital increase from **KD 317,969,760.400** (Three hundred seventeen million, nine hundred sixty nine thousand, and seven hundred sixty Kuwaiti Dinar/400 fils) to **KD 357,969,760.400** (Three hundred fifty seven million, nine hundred sixty nine thousand, and seven hundred sixty Kuwaiti Dinar/400 fils) by an increase of **KD 40,000,000** (forty million Kuwaiti Dinars) allocated to **400,000,000 ordinary shares** (four hundred million ordinary shares) at a nominal value of 100 (One Hundred) Fils per share with an issue premium of 400 (four hundred) Fils per share. The increase shall be allocated to the Bank's shareholders each in proportion to his/her/its shareholding percentage.

The Bank's Extraordinary General Assembly approved the capital increase at its meeting dated March 23rd 2022. Accordingly, the Bank's Board of Directors approved, in its meeting dated April 5th 2022, to call for the share capital increase and to authorize the Group Chief Executive Officer of the Bank to determine the subscription period for the share capital increase in the subscription prospectus and the schedule of corporate actions.

On April 24th 2022, 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 one vote on its holder and each shareholder ("The Shareholder") shall be entitled to attend and vote in the General Assembly meeting. 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 May 15th 2022 and will extend for 15 days until May 29th 2022 ("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 June 5th 2022 and will extend for 10 days until June 19th 2022. **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 the, 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, consistent with the protocols for the current 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 Subscription Agent, declares that it assumes liability in the event that the information included in the Prospectus is incorrect, and that the necessary requirements and procedures have been fulfilled, and that all the required documents in the Prospectus have been submitted as per the CMA Law and its Executive Bylaws. The Bank further declares that, to the best of its knowledge after making all reasonable inquiries, the Prospectus does not omit 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 April 24th 2022.

Liability Statement

Persons Responsible for the Subscription Prospectus:

This Prospectus has been prepared by:
Name: Adel Abdul Wahab Al-Majed
Position: Vice Chairman & Group 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 & Group Chief Executive Officer**	

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
Prof.Dr. Fayez Abdullah Al Kandari	**General Manager – Legal Affairs**	

Important Notes

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 Subscription Agent 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 Subscription Agent.

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 September 21st 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
Underwriting Advisor	Boubyan Capital Investment Company
Offering Type:	Public Subscription in the Issue/Offering shares with pre-emption right to Eligible Shareholders at **11.98%** (eleven point ninety eight percent).
Offer Price	500 fils (five hundred Kuwaiti Fils) per Share (including the nominal value and the issue premium).
Nominal Value	100 (One Hundred) fils per Issue Share
Issuance Premium	400 (Four Hundred) Kuwaiti Fils per Issue Share
Total number of Shares immediately prior to Offering	**3,338,682,484** (three billion, three hundred thirty eight million, six hundred eighty two thousand, and four hundred eighty four) **shares** at a nominal value of 100 (One hundred) Fils each, all of which are fully paid
Issuer's authorized, issued and paid up capital	**KD 333,868,248.400** (Three hundred thirty three million, eight hundred sixty eight thousand, and two hundred forty eight Kuwaiti Dinar/400 fils).
Treasury Shares	**475,652** shares.
Number and Nature of Issue Shares	**400,000,000 ordinary shares** (four hundred million ordinary shares) representing **11.98%** (eleven point ninety eight percent) of the Issuer's existing issued share capital.
Number of offering shares undertaken to be subscribed	None
Value of undertaken Issue/Offering shares	None
Total number of shares immediately following the Offering	**3,738,682,484** (three billion, seven hundred thirty eight million, six hundred eighty two thousand, and four hundred eighty four) shares.
Issuer's issued capital immediately following the Offering	**KD 373,868,248.400** (Three hundred seventy three million, eight hundred sixty eight thousand, and two hundred forty eight Kuwaiti Dinar/400 fils).
Percentage increase in issued share capital	The capital of the Issuer will be increased by **KD 40,000,000** (Forty million Kuwaiti Dinars)

	representing an increase of **11.98%** (eleven point ninety eight percent) in the Issuer's authorized and issued share capital immediately prior to the Offering.
Total value of the Offering	**KD 200,000,000** (Two hundred million Kuwaiti Dinars) inclusive of the nominal value and the share premium.
Restrictions on trading in securities offered for subscription and any future arrangements	None
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 **20,000** (Twenty Thousand) 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	From May 15th 2022 to June 19th 2022
Offering/Subscription Period Allocated for Exercising Pre-emption Right	From May 15th 2022 to May 29th 2022
Period for Public subscription in surplus shares (if any)	From June 5th 2022 to June 19th 2022
The Period for Trading Pre-Emptive Rights	From May 15th 2022 to May 22nd 2022
Trading Pre-Emptive Rights	Approval of this Prospectus shall be an approval from Boursa Kuwait and Kuwait Clearing Company to list and trade pre-emptive rights during the period of subscription in the issue shares. Listing shall be cancelled upon the company's disclosure of the results of subscription in the capital increase.
Means of Disposal of Pre-Emptive Rights	Upon trading of pre-emptive rights, registered shareholders with the Shareholders Register as at May 11th 2022 may dispose of their pre-emptive rights, in the capital increase shares subject of this Prospectus,

	to shareholders or third parties through either of the two ways stated below or both of them: A) Trading pre-emptive rights, in part or in full, as per the rules of Boursa Kuwait. B) Waiving pre-emptive rights to another shareholder or to a third party against no consideration as per the rules of Boursa Kuwait and the Clearing Agency. In all cases, a shareholder who disposed of his pre-emptive rights in the above manner may not be entitled to subscribe in such rights, and any subscription by him therein shall fall null and void. However, the alienee to whom pre-emptive rights were transferred shall have the right to subscribe in the shares designated for such rights, and shall further have the right to dispose of the same in the manner stated under the applicable rules of the CMA, Boursa Kuwait, and Kuwait Clearing Company up to five business days at least before the offering is closed. Upon completion of the pre-emptive rights' transfer, the alienee may not refrain from this action, and he shall be deprived of the pre-emptive right in case of not exercising it during the subscription period designated for eligible shareholders, which will be extending from May 15th 2022 until it ends on May 22nd 2022.
Allocation Date	Within 5 working days of the end of the first or second subscription periods.
Eligible Shareholders (Owners of Pre-emption Right to Subscribe in the Issue Shares)	Shareholders recorded in the Bank's Shareholder Register with Kuwait Clearing Company K.S.C. on the Record Date, i.e. shareholders recorded in the Bank's Shareholders Register as at May 11th 2022. 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 ("Date of suspending pre-emptive rights"), and as a result have not yet been recorded on the Bank's Shareholder Register, such will not be considered in determining the Eligible Shareholders enrolled as at the Record Date.
Minimum Subscription	1 (One) Share
Eligible shareholders' 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 in 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 Surplus Issue Shares	Eligible Shareholders shall have the right to subscribe in surplus 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 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 **11.98%** (eleven point ninety eight percent) of the shares held by eligible subscriber registered in the bank's record as at May 11th 2022. Any 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 on a pro

	rata basis as per 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 of the fractional shares. **In case all shares offered for subscription are subscribed in 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 Bylaws thereof. The allocation of the Issue Shares shall be final without any 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 reserves the sole right to dispose of the fractional shares. **(See "Subscription Terms, Conditions & 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 as at the Record Date. 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 legally 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 independent budgets are exempted from the cap.
Dividends	The shareholder of the Issue Shares will be entitled to receive any dividends declared by the Issuer in future (consistent with existing 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 16 fils for the fiscal year ending December 31st 2022.
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 178 fils according to the financial statements for the year ended 31 December 2021.
Share-Value Redemption	Existing and new shareholders can redeem the shares' value (either by profit or by 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 in proportion to 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 either to: (**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 Subscription Agent	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. Abdulaziz Abdullah Dakheel Al-Shaya Mr. Adel Abdul Wahab Al Majed Mr. Adnan Abdullah Al-Othman Mr. Ali Yousef Hussain AlAwadhi Mr. Hazim Ali Al-Mutairi Mr. Mohammed Yousef Ahmed Al-Saqer Mr. Waleed Mishari Al-Hamad Mr. Khaled Ahmad Saud AlMudhaf Mr. Abdullah Saud Bader Al Bader Mr. Sayed Imran Azhar Ali Mr. Waleed Humoud Al-Ayadhi

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 May 11th 2022). 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 in 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 **20,000** (twenty thousand) shares, equivalent to **KD 10,000** (KD ten thousand) 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 for 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 visiting the clearing and depository agent "to subscribe in a number of shares exceeding 20,000 (twenty thousand) 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- the subscriber's non-payment 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 and accepted by the Clearing and Depository Agent. 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 to 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 allocated to him/her/it, provided such an 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 Authorized Signatories' certificate 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 the case may be) are required to provide the equivalent of the aforementioned documentation as issued by their jurisdictional authorities if they do not have Kuwaiti 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 in 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 (May 11th 2022), i.e., 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 **11.98%** (eleven point ninety eight 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 the period of exercising the pre-emption right)

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 during the subscription period.

Fractions of shares may not be subscribed in 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 Subscription Agent.

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 duplicate applications of the subscriber 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; mismatch between the amount paid and the number of required shares; if the application is not accompanied by a document evidencing the full payment of the subscribed shares, the subscriber does not pay the full subscription amount once at the time of submission of the Subscription Application Form (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; the inaccuracy, incompleteness, lack of clarity or illegibility of any information contained in the Subscription Application Form or if the Subscription Application form is submitted more than once, 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 submitted.

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

Subscription Allocation & Surplus

<u>First: Period allocated for exercising pre-emption right:</u>

Eligible shareholders shall be entitled to subscribe for **11.98%** (eleven point ninety eight 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 upon its discretion. In case eligible shareholders do not cover the issue shares, surplus shares shall be offered for public subscription.

<u>Second: Public Subscription for the Surplus Shares:</u>

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 of 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

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

Expected Timetable

Event	Date
Subscription commencement date for exercising pre-emption right	May 15th 2022
Pre-emption rights Trading commencement date	May 15th 2022
Subscription close date for exercising pre- emption right	May 29th 2022
Public Subscription commencement date for surplus shares unsubscribed by eligible shareholders	June 5th 2022
Public subscription close date	June 19th 2022
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 on Boursa Kuwait	Will be listed on Boursa Kuwait following completion of all necessary regulatory procedures.

Basis of calculation of share price and premium

The Bank has appointed an independent CMA-approved asset valuator, BDO Consulting W.L.L. (Licensed for Economic, Administrative, Industrial and Computer Consulting, and opening private training institutes) 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. We have further secured the approval of BDO Consulting W.L.L. (Licensed for Economic, Administrative, Industrial and Computer Consulting, and opening private training institutes) to incorporate their opinion in this Prospectus, and that their opinion is still valid.

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 & reviewed financial statements of the Bank, Management historical information for past years from 2016 to 2021, as well as projected financial information prepared by Boubyan Bank for the years from 2022 to 2026 and information in the public domain from reliable third-party sources.

These methods are summarized as follows:

Relative Valuation Approach: This method mainly uses market multiples and market capitalization and includes market multiples methods (EV/Book Value and EV/EBITDA).
Income Approach: We have applied the Discounted Cash Flow Model "DCF".

The below table summarizes the findings of the independent valuation prepared by BDO Consulting W.L.L. (Licensed for Economic, Administrative, Industrial and Computer Consulting, and opening private training institutes) , which has been deemed an indicative fair value:

Valuation Approach	Indicative Value	Share Price
	KD'000's	KD
Market multiples approach	2,812,924	0.885
Market capitalization approach	2,441,687	0.768
Discounted Cash Flow Model "DCF"	2,353,124	0.740

Use of Offering 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	September 21st 2004 – Kuwait
Issued and Paid up Capital	**KD 317,969,760.400** (Three hundred seventeen million, nine hundred sixty nine thousand, and seven hundred sixty Kuwaiti Dinar/400 fils).
Legislation Under which the Bank is Incorporated	Boubyan Bank was established by 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 September 21st 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 November 30th 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 of 2003 adding a special section for Islamic Banks to Chapter 3 of Law no. 32 of 1968 concerning Currency, the Central Bank of Kuwait and Organization of the Banking Business, as amended; and Law no. 7 of 2010 Concerning the Establishment of the Capital Markets Authority and Regulating Securities Activities and its Executive Bylaws, as amended.

Detailed 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 2021, 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 2021, the bank's branch network reached 45 branches with a plan to open more branches in 2022. 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 maintained this in 2021 with a 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 for their comfort and convenience and available cross both our digital and traditional platforms. Our diligence, perseverance and dedication enabled the accomplishment of high customers' satisfaction possible.

Boubyan Bank excelled in 2021 by 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, including health and education finance

The meticulously planned and perfectly executed efforts were rewarded with various awards that marked another milestone in Boubyan's continued 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 2021.

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 further evidenced by the recent accomplishments, whereby the Bank won the "Best Islamic Bank in Service Level" Award in Kuwait from Service Hero for the eleventh year in a row.

The bank now has 261 ATMs and 43 ITMs in both branch and off-site locations. The off-site ATM network 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.

In line with Boubyan Bank's aspirations to offer a wide range of financial solutions to the markets of the Middle East, Nomo Bank was launched under the umbrella of the Bank of London and the Middle East (a Boubyan Bank subsidiary) as the First Islamic Digital Bank based in the United Kingdom. It aims to meet the requirements of customers, with an international financial vision and a cross-border banking experience to make international investments within reach of customers.

One of the remarkable aspects about Nomo is that it was developed to accommodate a growing segment of individuals in the Middle East who are interested in international banking services, providing a digital solution for accessing, moving, and investing money in the U.K. and internationally with ease and assurance. These efforts and meticulous planning were crowned with Boubyan Bank being named the "Best Islamic Bank in Kuwait" by Global Finance.

Corporate Banking Group

The Corporate Banking Group provides financing products such as Murabha, Ijara, and many other trade 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 assume 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 2021, such as:

- Updating and enhancing the online corporate banking platform
- Enhancing and improving digital service offerings.
    - E-Payments
    - Payroll services
    - Managing and controlling credit limits for corporate credit cards
- Factoring products, and
- Corporate debit card issuance

The Corporate Banking Group increased its market share in 2021 to reach 9.33%. The group maintains 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 2021 as Initial Mandate Lead Arranger and Book Runner on several high profile Islamic deals in the region.

The group managed to achieve remarkable growth in its credit portfolio, with a growth rate of 8.3% during 2021. This growth was achieved 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 2021 was made through diversifying the financing to various economic sectors, while giving a preference to the real-estate, oil, education sectors, and other services; and maintaining the quality of assets as per the best banking risk management practices.

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

Throughout 2021, 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, reflects the vision of the Corporate Banking Group towards enhancing and developing the group's relationship with existing customers and targeting the acquisition of new customers.

In line with this, the Corporate Banking Group developed and launched many new services and products in 2021 in order to diversify corporate service offerings, including:

A suite of new and enhanced products including;

- The factoring
- Working capital finance product to cater for the short term financing needs,
- Segmented Ijara product which made it easy to have access to financing as per categories.
- Flexible Murabaha product.
- Letter of credit Murabaha product.
- Equipment and machinery Murabaha.

A suite of new and enhanced digital services including;

- 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 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. After the issuance of the instructions on Net Stable Funding Ratio, the Group embarked on ensuring the bank's compliance with CBK's instructions on NSFR, which came into effect on 1 January 2018.

2021 has been a fruitful year for Treasury Group despite the difficult external economic and political circumstances which are being experienced by the region. In 2021 the Group played an instrumental role in the bank's issuance of USD 500 million Perpetual Tier -1 Sukuk. Foreign exchange volume was at a record allowing the bank to register its highest ever FX profits while deposits increased by more than 10%.

In line with the bank's strategy, Treasury did extensive work to gear up its capabilities and services in the FX spot trading market, and to introduce new products to its corporate customers, and private banking customers (wealth management). These services included the bank's Sharia-compliant Wa'ad-based FX Forward sales 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. This new product is aimed at supporting the bank's ability to offer cutting-edge solutions to its customers 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., the Bank of London and the Middle East Holdings Plc. "BLME", 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, the U.K. 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 Group 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.

- The political situation in the Middle East and the world in general, which may lead to geopolitical conflict, may negatively affect the group's activity.

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

None

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 K.S.C. (Closed)	Takaful insurance	Kuwait	89.09%
Boubyan Capital Investment Company K.S.C. (Closed)	Islamic investments	Kuwait	100.00%
BLME Holdings Plc.	Islamic Banking	The United Kingdom	71.12%

- **Other Investments**

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

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.

None

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 of 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.

None

Number and details of any Securities previously issued by the Issuer

First: 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.

Second: BOUBYAN BANK TIER I SUKUK during 2016:

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 ended May 2021 (the "First Call Date") or any profit payment date thereafter subject to certain redemption conditions.

The net proceeds of Tier 1 Sukuk were 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 bore 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.

The following table shows the data for this issuing:

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

Third: CAPITAL INCREASE IN 2019

As per the decision of the Extraordinary General Assembly Meeting held on March 17th 2019, the bank's capital increase was approved from **KD 250,789,518.300** (KD two hundred fifty million, seven hundred eighty nine thousand, five hundred eighteen /300fils) to **KD 288,407,946** (KD two hundred eighty eight million, four hundred and seven thousand, nine hundred forty six) at a nominal value of 100 (One Hundred) Fils per share with an issue premium of 250 (two hundred fifty) Fils per share.

Forth: BOUBYAN BANK TIER I SUKUK during 2021:

On 1 April 2021, the Bank has issued "Tier 1 Sukuk – 2021", through a Sharia's compliant Sukuk arrangement amounting to USD 500 million which was fully allocated. Tier 1 Sukuk - 2021 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 – 2021 is callable by the Bank on 1 October 2026 and bears an expected profit rate of 3.95% per annum to be paid semi-annually in arrears. The expected profit rate will be reset on 1 April 2027 based on then prevailing 6 years US Treasury Rate plus initial margin of 2.896% per annum. The net proceeds are invested by way of Mudaraba with the Bank (as Mudareb) on an unrestricted co-mingling basis, by the Bank in its general business activities carried out through the general Mudaraba pool. Mudaraba profit will not be accumulated and the event is not considered an event of default.

The following table shows the data for this issuing:

Issuer	Boubyan Bank Tier 1 Sukuk
Obligor	Boubyan Bank K.S.C.P.
Currency / Format	USD / Fixed Rate
Status	Boubyan Bank's Subordinated Tier 1 Capital Certificates
Obligor Rating	A+ (Fitch) / A3 (Moody's) / A- (S&P)
Issue Rating	Unrated
Amount	USD 500 million
Pricing Date	April 1st 2021
Issuer Call Date	October 1st 2026 ("First Call Date") (Six months for dividends payment and April 1st 2027 ("First Allocation Date").
Coupon	3.95% for the period including the issuance date, except the date of resetting of the first allocation. Reallocation is made on the first rate reset date and for every six years after that based on the relevant reallocation for six years in addition to the margin.
Listing	Euronext Dublin
Governing Law	English law

<u>Fifth: Securities issuances not classified as capital security:</u>
The Bank established a USD 1 billion Global Medium Term Sukuk programme ("GMTN programme") in 2019, which has been subsequently revised to USD 3 billion in 2022. Through the GMTN program, the Bank has issued the following securities:

- On 18 February 2020, the Bank issued senior unsecured Sukuk amounting to USD 750 million due in February 2025 under the GMTN programmed through a wholly owned special purpose vehicle. This Sukuk was issued at 100 per cent of nominal value and carries a fixed profit rate at 2.593% per annum payable semi-annually in arrears.

- On 29 March 2022, the Bank issued senior unsecured Sukuk amounting to USD 500 million due in March 2027 under the GMTN programme through a wholly owned special purpose vehicle. This Sukuk was issued at 100 per cent of nominal value and carries a fixed profit rate at 3.389% per annum payable semi-annually in arrears.

The following tables show the data for these issuings:

2020 Issuing:

Issuer	Boubyan Sukuk Limited
Obligor	Boubyan Bank K.S.C.P.
Currency / Format	US$ / Fixed Rate
Status	Senior Unsecured
Obligor Rating	A3 by Moody's (stable) / A- by S&P (positive) / A by Fitch (stable)
Issue Rating	A by Fitch
Amount	US$750 million
Pricing Date	11 February 2020
Maturity Date	18 February 2025
Coupon	2.593%
Listing	Euronext Dublin
Governing Law	English Law

2022 Issuing:

Issuer	Boubyan Sukuk Limited
Obligor	Boubyan Bank K.S.C.P.
Currency / Format	US$ / Fixed Rate
Status	Senior Unsecured
Obligor Rating	A3 by Moody's (stable) / A- by S&P (positive) / A by Fitch (stable)
Issue Rating	A by Fitch
Amount	US$500 million
Pricing Date	22 March 2022
Maturity Date	29 March 2027
Coupon	3.389%
Listing	Euronext Dublin
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 2021.

Name	DISCLOSURE TYPE	PERCENT (%)
National Bank of Kuwait K.S.C.P.	Direct & Indirect	59.90%
Commercial Bank of Kuwait	Direct	9.73%

Issuer's dividends over the past five years

First: Dividends – Bonus Shares

Description	2017	2018	2019	2020	2021
Percent %	5%	5%	5%	5%	5%
Amount	11,373,674.300	11,942,358.000	14,420,397.300	15,141,417.100	15,898,488.000

Second: Dividends – Cash

Description	2017	2018	2019	2020	2021
Percent %	7%	8%	9%	-%	5%
Amount	15,899,882.000	19,091,552.000	25,953,735.000	--	15,896,386.000

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

Related party transactions reported in the Bank's consolidated balance sheet as of 31 December 2021 are as follows:

	Number of board members and executive officers	Number of related parties	Balance
			KD'000's
Islamic financing to customers	**7**	**-**	**310**
Depositors' accounts	**15**	**18**	**13,168**
Letters of Guarantee and Letters of Credit	**1**	**2**	**370**
Islamic financing income			**11**
Finance cost and distribution to depositors			**(3)**

Parent Company			
Due from banks			**117,243**
Due to banks			**31,797**
Depositors' accounts			**508**
Islamic financing income			**788**
Finance cost and distribution to depositors			**(920)**

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

S/N	Name	Position
1.	Mr. Abdulaziz Abdullah Dakheel Al-Shaya	The Chairman
2.	Mr. Adel Abdul Wahab Al Majed	Vice Chairman & Group Chief Executive Officer
3.	Mr. Adnan Abdullah Al-Othman	Director
4.	Mr. Ali Yousef Hussain AlAwadhi	Director
5.	Mr. Hazim Ali Al-Mutairi	Director
6.	Mr. Mohammed Yousef Ahmed Al-Saqer	Director
7.	Mr. Waleed Mishari Al-Hamad	Director
8.	Mr. Khaled Ahmad Saud AlMudhaf	Independent Director
9.	Mr. Abdullah Saud Bader Al Bader	Independent Director
10.	Mr. Syed Imran Azhar Ali	Independent Director
11.	Mr. Waleed Humoud Al-Ayadhi	Independent Director

b) Number and class of Shares owned by each Member of the Board of Directors of the Issuer in the Issuer's Capital

S/N	Name	Number of Shares	Class of Shares
1.	Mr. Abdulaziz Abdullah Dakheel Al-Shaya	263,934	Ordinary Shares
2.	Mr. Adel Abdul Wahab Al Majed	463,465	
3.	Mr. Adnan Abdullah Al-Othman	133,160	
4.	Mr. Ali Yousef Hussain AlAwadhi	Nil	
5.	Mr. Hazim Ali Al-Mutairi	242,902	
6.	Mr. Mohammed Yousef Ahmed Al-Saqer	99,844	
7.	Mr. Waleed Mishari Al-Hamad	118,560	
8.	Mr. Khaled Ahmad Saud AlMudhaf	Nil	
9.	Mr. Abdullah Saud Bader Al Bader	280,592	
10.	Mr. Syed Imran Azhar Ali	Nil	
11.	Mr. Waleed Humoud Al-Ayadhi	1,337	

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

Abdulaziz Abdullah Dakheel Al-Shaya Chairman (Non-Executive) **Year of joining: 2009**	**Skills and Experience:** Mr. Al-Shaya is a well-known businessman with more than 42 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, K.S.C.C. (Kuwait) • Vice Chairman – Orient Education Services Company, K.S.C.C. (Kuwait) • Vice Chairman of Trustees – Algonquin College (Kuwait)
Adel Abdul Wahab Al-Majed Vice-Chairman & Group Chief Executive Officer (Executive) **Year of joining: 2010**	**Skills and Experience:** Mr. Al-Majed joined Boubyan Bank in August 2009, and holds almost 40 years of banking experience. He worked previously at the National Bank of Kuwait (NBK) for more than 25 years, 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, Stanford, and other reputable institutions. **Current Positions:** • Chairman – The Bank of London and The Middle East (U.K.)
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 42 years of experience in banking and real estate sectors; he owns a real estate company in the State of Kuwait. Mr. Al-Othman holds a bachelor's degree in Industrial Engineering from Syracuse University - USA. **Current Positions:** • 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) • Board Member in Zakat House
Ali Yousef Hussain AlAwadhi **Director (Non-Executive)** **Year of joining: 2022**	**Skills and Experience:** Mr. Al Awadhi has a diversified experience in several sectors, including finance, investment and banking, and has held a number of positions in the private sector since obtaining a Bachelor degree in Accounting from Kuwait University in 1998. **Current positions:** • Vice Chairman and CEO of Securities Group Company (K.S.C). • Chairman of Future International Telecommunication Company (K.S.C). • Chairman of Sham Bank. • Chairman of Mouwasat Healthcare Company (K.S.C). • Chairman of the Board of Directors of Nafais Holding Company (K.S.C). • Board Member of Kuwait Oil Company.
Hazim Ali Al-Mutairi Director (Non-Executive) **Year of joining: 2010**	**Skills and Experience:** Mr. Al-Mutairi has a diversified experience of more than 30 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. **Current Positions:** • Vice Chairman and CEO of Credit One Kuwait Holding Company. • Board Director – Warba Insurance Company, K.P.S.C. (Kuwait) • Board Director – Idafa Holding Company, K.S.C.C. (Kuwait)
Mohammed Yousef Al-Saqer Director (Non-Executive) **Year of joining: 2019**	**Skills and Experience:** Mr. Al-Saqer is well-known businessman with more than 32 years of business experience, he is the Managing Partner 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. **Current Positions:** • Chairman and CEO of Al Yasra Group.

Waleed Mishari Al-Hamad Director (Non-Executive) **Year of joining: 2010**	**Skills and Experience:** Mr. Al-Hamad holds more than 30 years of experience, including 11 years in the banking and the investment sectors. He is the CEO of a holding company in Kuwait, and holds a bachelor's degree in Economics, and a Master's degree in Finance from the United States of America. **Current Positions:** • Board Director and CEO – Helvetia Arab Holding Company, K.S.C.C. (Kuwait)
Khaled Ahmad Saud AlMudhaf Director (**Independent**) **Year of joining: 2022**	**Skills and Experience:** Mr. AlMudhaf has significant legal experience as he joined the Kuwaiti judiciary after graduating from the Faculty of Law and Sharia, Kuwait University. Through his career he has held several positions, most notably the Director of the Public Administration for Experts Services Department, the Assistant Undersecretary for Legal Affairs and an Agent for real estate registration and corroboration in the Ministry of Justice. He also held important positions in the state, including Vice President of the Legal Advice and Legislation Department, Chairman of the Public Authority for Compensation, and Head of the Secretariat of the Central Committee to oversee the Projects Implementation with environmental rehabilitation. He is currently a Certified Arbitrator at the Commercial Arbitration Center for the Gulf Cooperation Council States and a Certified Arbitrator at the Kuwait Chamber of Commerce and Industry. **Current Positions:** • Independent Board Member in Boubyan Bank (K.S.C.P)
Abdullah Saud Bader Al Bader Director (**Independent**) **Year of joining: 2022**	**Skills and Experience:** Mr. Al Bader has extensive practical experience of more than 39 years in the financial sector in the State of Kuwait. He held many positions focused on leading a taskforce to identify priority objectives. That taskforce established policies and procedures on one side and worked to direct initiatives that achieved profitability and return on capital on the other. He actively participated in the planning of construction projects implemented by the companies he managed. He holds a Bachelor's degree in Business Administration from Kuwait

	University, and has also completed several Harvard Business School programs including the First Middle East Senior Executive Program in additional to numerous programs on Islamic finance. **Current Positions:** • Independent Board Member in Boubyan Bank (K.S.C.P)
Syed Imran Azhar Ali **Director (Independent)** **Year of joining: 2021**	**Skills and Experience:** Mr. Ali is an expert in Audit with Ernst and Young (EY) in the UK and has 40 years of experience in that field serving in five countries across three continents. He retired as the Managing Partner of EY Assurance practice of the Middle East and North Africa (MENA). Mr. Ali is a life member of the Institute of Chartered Accountants in England and Wales (ICAEW). **Current Positions:** Independent Board Member in Boubyan Bank (K.S.C.P)
Waleed Humoud Al-Ayadhi **Director (Independent)** **Year of joining: 2021**	**Skills and Experience:** Mr. Al-Ayadhi has around 40 years of experience in the banking and insurance sectors, and is the serving Deputy CEO of Boubyan Takaful Insurance Company in Kuwait. Mr. Al-Ayadhi graduated from City University in USA with a bachelor's degree in Business Administration. **Current Positions:** • Independent director at Boubyan Bank.

N.B: 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.

1. Board Management Executive Committee	Adel Abdul Wahab Al-Majed - Committee Chair Hazim Ali Al-Mutairi - Committee Vice-Chair Waleed Mishari Al-Hamad - Committee Member Mohamed Yousef Al-Saqer - Committee Member
2. Board Nomination & Remuneration Committee	Waleed Humoud Al-Ayadhi - Committee Chair Mohamed Yousef Al-Saqer - Committee Vice-Chair Khaled Ahmad Saud AlMudhaf - Committee Member Waleed Mishari Al-Hamad - Committee Member Hazim Ali Al-Mutairi - Committee Member
3. Board Governance Committee	Abdulaziz Abdullah Dakheel Al-Shaya - Committee Chair Adel Abdul Wahab Al-Majed - Committee Vice-Chair Abdullah Saud Bader Al Bader - Committee Member Syed Imran Azhar Ali - Committee Member Khaled Ahmad Saud AlMudhaf - Committee Member
4. Board Audit Committee	Syed Imran Azhar Ali - Committee Chair Waleed Humoud Al-Ayadhi - Committee Vice-Chair Ali Yousef Hussain AlAwadhi - Committee Member Khaled Ahmad Saud AlMudhaf - Committee Member
5. Board Risk Management and Compliance Committee	Abdullah Saud Bader Al Bader - Committee Chair Adnan Abdullah Al-Othman - Committee Vice-Chair Ali Yousef Hussain AlAwadhi - Committee Member Khaled Ahmad Saud AlMudhaf - Committee Member

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 December 31st 2021 was KD 580,000. It is expected to remain the same amount for 2022.

F. Members of the Executive Management.

Name:	Position	Years of Experience	Nationality	Education
Adel Abdul Wahab Al-Majed	Vice Chairman & Group Chief Executive Officer	More than 40 years	Kuwait	Bachelor's
Abdullah Abdulkareem Al-Tuwaijri	CEO - Consumer, Private, and Digital Banking	More than 32 years	Kuwait	Bachelor's
Abdul-Salam Mohammed Al-Saleh	CEO - Corporate Banking, Financial Control, Treasury and Legal Affairs	More than 33 years	Kuwait	Bachelor's
Waleed Khalid Al-Yaqout	Group General Manager - Administration Group	More than 40 years	Kuwait	Bachelor's
Adel Abdullah Al-Hammad	Group General Manager - Human Resources Group	More than 37 years	Kuwait	Bachelor's
Abdullah Ahmed Al-Mehri	Chief Operating Officer	More than 20 years	Kuwait	Master's
Abdullah Abdulmohsen Al-Mejhem	Chief of Private Banking, and Acting Chief of Consumer Banking	More than 20 years	Kuwait	Master's
Ashraf Abdallah Sewilam	Group General Manager - Corporate Banking Group	More than 27 years	Egypt	Bachelor's
Abdul Rahman Hamza Mansour	Chief Internal Audit - Internal Audit Group	More than 40 years	Egypt	Bachelor's
Mohamed Ibrahim Ismail	Group General Manager - Financial Control Group	About 25 years	Egypt	Master's
Maged George Fanous	Chief Risk Officer	More than 33 years	U.K.	Bachelor's
Noorah Sulaiman Al-Fassam	Chief Strategy Officer	More than 23 years	Kuwait	Master's
Abdullah Khalifa Al-Nusef	Chief Data & Information Technology Officer	More than 15 years	Kuwait	Master's
Osama Mohammed Shehab	Chief Digital Officer	About 25 years	Egypt	Bachelor's
Adel Rashed Al-Mutairi	Treasurer	More than 17 years	Kuwait	Bachelor's
Mona Abdullatif Al Duaij	Chief Compliance Officer	More than 15 years	Kuwait	Bachelor'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 Bank'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 endeavors to manage credit exposures by obtaining collaterals where appropriate and limiting the tenor of exposure in a manner that is beneficial to the overall risk profile of the Bank's credit exposures.

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 Group'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 Group'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 Group's credit risk management strategy and approves credit risk policies to ensure alignment of the Group'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 Group CEO and comprising senior executives from the business divisions in addition to members from Risk Management, 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 processes

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 for credit risks 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. Additionally, a periodic review is performed at least once a year for all credit exposures.
- 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 Consumer Banking 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 utilized include applicant characteristics; such as age, profession, employer and credit obligations, 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 utilization 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 specialized 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 mitigates 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 to serve as further instruments to mitigate credit risks. 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 acceptable 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 collaterals are valued at least 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 33% of total exposure, which represents a vastly diversified portfolio where exposures do not exceed CBK limits of KD 95 thousand -followed by the real estate sector which stands at 19% of the total credit risk exposures as at the end of 2021. Out of total credit risk exposure, the Middle East contributes 90% while Europe and the U.K. Contribute 10% of total Finance Portfolio as at the end of 2021. The bank’s largest 20 financing clients with outstanding financing represent 23.42% of the total of the customer financing portfolio as at December 31st 2021.

Deposit base concentration risk

The Bank largely depends on customers’ deposits to meet most of its finance needs (deposits of individuals, corporate, government and non-banking financial institutions). 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.
The bank constantly seeks to diversify the base, sources, and terms of its deposits as one of the ways of managing such risks.

Market risks

Market risks are the risks of fluctuation in 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 Bank 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 Bank 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 Risk

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. Significant 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 Bank. Losses arising from the failure of internal controls may lead to an adverse effect on the Bank's business, financial standing, and the results of its operations, thus, influencing the reputation of the Bank negatively. In addition to the above policies and procedures aiming at mitigating risks, the bank holds insurance to cover for losses arising, fully or partially, from such operational incidents whenever the bank deems there is need to use the same. The Bank 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 as part of overall risk management activities.

The operational risk of the Bank 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 2021, the Bank's Tier 1 (T1) capital adequacy ratio (calculated according to Basel III standards) was 15.17% and its total capital adequacy ratio was 16.40%; in each case above, the levels required by the CBK as at that date were 12% (T1 capital) and 14.00% (total capital adequacy ratio). A variety of factors may affect the Bank's capital adequacy levels. For example, an increase in lending during the upcoming period is likely to reduce the Bank's capital adequacy ratios. 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 Central Bank of Kuwait.

Credit ratings

Moody's	Fitch	Standard & Poor's
o Long-Term Deposit Ratings: A3, with a "stable" Outlook o Short-Term Deposit Rating: "P-2" o Baseline Credit Assessment: ba1	o Long Term IDR: A, with a "stable" Outlook o Short-Term IDR: F1 o Viability Rating: BBB-	o Long-term issuer credit rating at "A-" with a "Positive" Outlook o The Anchor and SACP at 'bbb'

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 facility, and;
- the Bank must obtain adequate collateral.

Furthermore, credit extensions to related parties are also subject to adherence to the overall CBK limits which include that the total related 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.

Risks Associated with Pre-Emptive Rights "Rights Issue"

Disposing of pre-emptive rights may lead to the alienator "the one disposing of such rights" to risk losing his right to subscribe in the shares in which he has the right to subscribe. Accordingly, a shareholder who disposes of this right may be subject to reduction of the shareholding he previously held prior to the commencement of subscription in the offering's shares in addition to the consequences the alienator may face as regards the change in the value of his current shares if he remains a shareholder.

Additionally, the alienee may be exposed to the risk of inability to recover the consideration he paid in return for the transfer of such a right to himself in case he doesn't subscribe in the shares for which he enjoys pre-emptive rights. He shall be exposed as well to all the risks listed in the sections of this Prospectus, to which existing shareholders or subscribers may be exposed.

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

(Translation)

(Emblem of the State of Kuwait)
Central Bank of Kuwait
(Emblem of the Central Bank of Kuwait)

Dr. Mohamed Yousef Al Hashel
The Governor

Date: 28 Jumada al-Ākhir 1443 A.H.
Corresponding to January 31st 2022

Ref: 2/105/400/2022

Mr. Abdulaziz Abdullah Dakheel Al-Shaya
Chairman
Boubyan Bank

Dear Sir,

Reference is made to your bank's letter dated January 11th 2022 requesting CBK's approval of your bank issued and paid up capital's increase by 12.6% through the issuance of new shares to be offered for public subscription with pre-emptive rights for shareholders, and provided that the issue premium is 400 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

Translation

The Capital Markets Authority
CMA Outgoing Mail
Date: February 09th 2022
Correspondence #: CMA-040300-00317-2022

Mr. Abdulaziz Abdullah Dakheel Al-Shaya
Chairman
Boubyan Bank K.S.C.P.

Subject: Approval of the Capital Increase of Boubyan Bank

Reference is made to the above subject, your bank's request dated February 1st 2022, and your bank's letter dated February 1st 2022, and in accordance with the provisions of 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, as amended, the Capital Markets Authority would like to notify you that it has approved Boubyan Bank's issued and paid up capital increase from KD 317,969,760.400 to KD 373,868,248.400 by an increase of KD 55,898,488 distributed to 558,984,880 shares in the following manner:

- Increasing Boubyan Bank's capital from KD 317,969,760.400 to KD 333,868,248.400 by distributing bonus shares at 5% of the capital amounting to KD 15,898,488 with a total number of shares amounting to 158,984,880 shares of the capital at a value of 100 fils per share.
- An increase of Boubyan Bank's capital from KD 333,868,248.400 to KD 373,868,248.400 by a cash increase of KD 40,000,000 distributed to 400,000,000 shares, at a nominal share value of 100 fils per share and an issue premium of 400 fils per share to be allocated for shareholders registered with the bank's records as at the end of the Record Date.

Translation

Boubyan 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

Translation

Date: 22 Jumādā al-Akhir 1443 A.H.
Corresponding to: January 25th 2022

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. (02/2022), 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 400,000,000 shares at an issue premium of 400 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 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 as well as the 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. Mohammed Awad Al-Fuzaie	**Sheikh Dr. Ali Ibrahim Al-Rashid**

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 23 March 2022 to the shareholders registered on 11th May 2022 according to the following information:

First: Shareholder Information

Participant ID:	
Shareholder Name:	
Shares balance as at …../…../2022:	

Second: Subscription Information

Subscription Percentage:	11.98%	**Share Price:**	500 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 AND ARTICLES OF ASSOCIATION

Boubyan Bank
Kuwaiti Shareholding Company, Public

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 authority 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, represented 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 resolution of 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**

While having full legal capacity to act and to enter into contract, both parties requested that the following contract shall be authenticated & legalized:

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 Name: Boubyan Bank (Kuwaiti 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 has been established are to exercise all banking and commercial activities and all those which are stipulated in the Commercial Law or the usage as banking activities in accordance with the principles of Islamic Sharia and the controls and regulations laid out by the Central Bank of Kuwait. The Company may not, 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)[1].
2- Accept deposits of whatever types whether in the form of current or saving accounts or investment accounts for specific or non- specific terms or purposes.
3- Exercise different financing operations by using different forms of Sharia-compliant contracts such as Murabaha, Musharaka, Istisna', and Ijara 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.

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[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.

6- Establish companies or participate in existing ones, or those under establishment, that 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 therefrom, related to or assisting the same whether directly or indirectly.
8- Buy and sell all types of lands and properties for financing purposes related to the same as per the provisions of Law no. 32 of 1968 Concerning Currency, the Central Bank of Kuwait and Regulation of Banking Business.[2]

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

Article (6)[3]

The company's capital amounts to KD 317,969,760.400 (Three hundred seventeen million, nine hundred sixty nine thousand, and seven hundred sixty Kuwaiti Dinars/400 Fils) allocated to 3,179,697,604 (three billion, one hundred seventy nine million, six hundred ninety seven thousand, and six hundred and four) shares at a value of 100 Fils (one hundred fils) per share. All shares are in cash.

Article (7)

Kuwait government, represented by Kuwait Investment Authority, subscribed in its capacity as one of the founders with a total of 200 million shares (two hundred million shares) and paid their nominal value of KD 20 million (Kuwaiti Dinars twenty million only) 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) would be floated for public subscription in accordance with the provisions of the Articles of Association.

Article (8)

[2] This has been added as a new objective of the bank by virtue of the notation in the Commercial Register dated March 17th 2021.

[3] The bank's capital was increased several times, the last of which was the increase by virtue of the notation in the Commercial Register, dated March 17th 2021.

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) 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 Sharia Supervisory Board, consisting of three members at least chosen from scholars specialized in Islamic dealings' jurisprudence in general and Islamic financial dealings in particular, and shall determine their provisions and remunerations. The members of the Sharia Supervisory Board shall select one of them as president, while the validity of their meetings to discuss such procedures shall necessitate the attendance of all its members if such members do not exceed three in number.

Article (10)

Both founders signing hereunto undertake to carry out all procedures 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:

1. Adnan Abdul Qader Al-Musallam, Kuwaiti national, holder of Civil ID No. (250111400842).
2. Yaaqoub Yousif Al Muzaini, Kuwaiti national, holder of Civil ID No. (260092500521).
3. Dharar Khaild Al Rabah, Kuwaiti national, holder of Civil ID No. (260110400188).

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

Article (11)

This Contract has been made by virtue of the Ministry of Commerce & Industry's letter no .8796, dated 13/3/2004, registered with 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 consists of (11) articles. The Articles of Association is attached to each copy hereof, and consists of (16) pages and (58) articles with neither deletion nor addition and its attachments 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 the Ministry of Commerce & Industry, and copies of the Civil ID Cards of the promoters.

Authentication Officer: Mamdouh Hassan Salem

Authentication Officer: Reda Bdeer Arafat

Boubyan Bank
Kuwaiti Shareholding Company, Public

Articles of Association

Chapter I
INCORPORATION OF THE COMPANY
Elements of Incorporation of the Company

Article (1)

In accordance with the provisions of the Law, and this Articles of Association whose provisions are shown hereinafter, **a public shareholding company called Boubyan Bank K.S.C.**, has been incorporated by the shareholders.

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 usage as banking activities in accordance with the principles of Islamic Sharia and the controls and regulations laid out by the Central Bank of Kuwait. The Company may not, 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)[4].
2- Accept deposits of whatever types whether in the form of current or saving accounts or investment accounts for specific or non- specific terms or purposes.

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

3- Exercise different financing operations by using different forms of Sharia-compliant contracts such as Murabaha, Musharaka, Istisna', and Ijara 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- Establish companies or participate in existing ones, or those under establishment, that 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 therefrom, related to or assisting the same whether directly or indirectly.
8- Buy and sell all types of lands and properties for financing purposes related to the same as per the provisions of Law no. 32 of 1968 Concerning Currency, the Central Bank of Kuwait and Regulation of Banking Business.[5]

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

(B) Capital

Article (5)[6]

The company's capital amounts to KD 373,868,248.400 (Three hundred seventy three million, eight hundred sixty eight thousand, and two hundred forty eight Kuwaiti Dinars/400 Fils) allocated to 3,738,682,484 (three billion, seven hundred thirty eight million, six hundred eighty two thousand, and four hundred eighty four) shares at a value of 100 Fils (one hundred fils) per share. All shares are in cash.

The company's capital amounts to KD 333,868,248.400 (Three hundred thirty three million, eight hundred sixty eight thousand, and two hundred forty eight Kuwaiti Dinars/400 Fils) allocated to 3,338,682,484 (three billion, three hundred thirty eight million, six hundred eighty two thousand, and four hundred eighty four) shares at a value of 100 Fils (one hundred fils) per share. All shares are in cash.

[5] This has been added as a new objective of the bank by virtue of the notation in the Commercial Register dated March 17th 2021.

[6] The bank's capital was increased several times, the last of which was the increase by virtue of the notation in the Commercial Register, dated March 27th 2022.

Note: The cash increase shares have not been subscribed to, and the registration will be modified later to reflect the results of the subscription.

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 organizing the same.

Article (7)

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

Article (8)

Kuwait government, represented by Kuwait Investment Authority subscribed, in its capacity as one of the founders signatory to this contract, with a total of 200 million shares (Two hundred million shares) and paid their nominal value of KD 20 Million (Kuwaiti Dinars twenty millions only) 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) with Kuwait Finance House as per the certificate dated 2004 attached to original hereof. The remaining shares of 760 million (Seven hundred sixty million) shares shall be floated for public subscription.

Article (9)

The remaining 760 million (Seven hundred sixty million) shares shall be floated for public subscription for a period of fifteen days at least, and shall not exceed three months 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 Regulation of Banking Business, as amended, as well as this Articles of Association, no person may either subscribe to more than 100 thousand shares (One hundred thousand shares) or possess more than 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; should they be issued with more value, the difference shall be compulsorily added to the statutory reserve after the settlement of the issue expenses. Every shareholder shall have the priority to subscribe in a share of the new shares in proportion with the number of his shares. A fifteen-day period from the date of publishing the invitation to shareholders to this effect shall be given so as to exercise their pre-emptive rights and shareholders may waive their pre-emptive rights in advance.

Article (14)[7]

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

(Added) Article [8]

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 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 may not exceed 10% within a 10-year period at most from the beginning of this scheme.

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

[8] 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.

2- Except for board members in management roles, board members may not participate in this scheme.
3- In capital increases for the purpose of implementing this scheme, employees benefiting from this option shall have pre-emption to these shares of such a capital increase. Accordingly, shareholders shall waive their designated pre-emption rights to shares in subscription to the capital increase.

Chapter II
The Company's Management

The Board of Directors

Article (15)[9]

Without prejudice to the continuance of the existing board for its elected term, the board of directors shall comprise of eleven (11) members including four (4) independent members. This shall be in compliance with the Law, the executive bylaws, and in line with the instructions and rules issued by regulatory authorities.
The Ordinary General Assembly shall elect the members of the board, select independent board members, and determine their remuneration.
The board of directors shall be elected for a 3-year term and may be re-elected, provided that the term of the independent director shall expire by the end of the term of the board for which he was selected. The Ordinary General Assembly may re-elect him for one additional term. The Ordinary General Assembly may increase the number of independent members, provided that the number of independent members shall not be in excess of half the board members.
Further to any such special provisions applicable to independent board members by virtue of the Law, executive bylaws, the instructions of regulatory authorities or this Articles of Association, all provisions applicable to other non-independent board members shall further apply to independent members, particularly such provisions provided in the Companies Law, and its Executive Bylaws concerning filling vacant posts in the board of directors, provided that if an independent seat becomes vacant in the board of directors, it shall be occupied by another independent board member.

Article (16)[10]

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

[9] Article no. 15 of the Articles of Association has been revised by virtue of the latest notation in the Commercial Register on December 1st 2021.
[10] Article no. 16 of the Articles of Association has been revised by virtue of notation in the Commercial Register on April 7th 2014.

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 (17)[11]

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 regulatory authorities. The board members may not disclose to shareholders, in meetings other than general assembly meetings, or to third parties, the company's secrets they came to know by virtue of their management roles. Also, the chairman or any of the board members may not be a board member in two competitor 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.

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

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 assembly, 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 Vice-Chairman for a term of three years.

Article (20)[12]

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 (21)[13]

The right to sign on behalf of the company severally shall be vested with the Chairman or the Vice-Chairman. 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 one 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 his provisions, and powers to sign on behalf of the company. It is not allowed to hold the Chairman & CEO positions simultaneously by any 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.

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

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

Article (22)[14]

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 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 consecutive 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 (23)[15]

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's meetings shall be recorded and signed by the present board members, and the board's secretary. A board member who objects to the resolution approved by the board may record his objection in the meeting minutes.

Article (24)

Upon a proposal from the Chairman, the Board of Directors shall determine 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.

Article (25)[16]

Without prejudice to the 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 Company and in exercising all the functions necessary for the company's management as per its

[14]Article no. 22 of the Articles of Association has been revised by virtue of a notation in the Commercial Register on April 7th 2014.
[15]Article no. 23 of the Articles of Association has been revised by virtue of a notation in the Commercial Register on April 7th 2014.
[16]Article no. 25 of the Articles of Association has been revised by virtue of a notation in the Commercial Register on April 7th 2014.

objectives. Such powers shall only be restricted as per the provisions of the Law or these Articles, or the General Assembly's 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, publishing 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 and determine their salaries and remunerations.

Article (27)[17]

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. Moreover, 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 further 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.

Article (28)

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

Article (29)

The Chairman and board members shall be responsible before 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.

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

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 thereunder.

(B) The General Assembly

Article (30)[18]

Invitation shall be addressed to shareholders to attend the General Assembly meeting 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 votes 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 issues 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.

Article (33)[19]

The provisions of Law no. 25 of 2012, promulgating the Companies Law, as amended, shall apply to the quorum necessary for the validity of the meetings of the General Assembly 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.

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

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

Voting shall be made by secret ballot for the purpose of electing the Board Members or for discharging them.

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 Constituent General 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 incorporation of the Company.

Article (36)[20]

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 send the invitation for the General Assembly meeting for any reason whatsoever under any of the cases where the board shall call for a General Assembly meeting.

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 (37)[21]

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.

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

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

Article (38)

The Board of Directors shall submit to the Ordinary 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, auditors' fees and the proposal for the distribution of the profits.

Article (39)

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

Article (40)[22]

The Extraordinary General Assembly shall be convened upon an invitation from the Board 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 Extraordinary 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 the entire business undertaken by the Company or otherwise disposing of it in any other manner.
3- Dissolving the Company or amalgamating it with another Company or entity.
4- Increasing or reducing the capital of the Company.

In no cases whatsoever, the amendment, disposition, amalgamation or any procedure may 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.

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

Chapter III
Sharia Supervisory Authority

Article (42)

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

Article (43)

The Company's General Assembly, upon the recommendation of the Board of Directors in the annual ordinary meeting, shall appoint the Sharia Supervisory Board, comprising of three members at least chosen from scholars specialized in Islamic dealings' jurisprudence in general and Islamic financial dealings in particular, and shall determine their allocations and remunerations. Members of the Sharia Supervisory Board shall select one of them as president, while the validity of their meetings shall necessitate the attendance of all its members if such members do not exceed three in number.

Article (44)

The Sharia Supervisory Board shall be responsible for giving opinion about the Company's compliance, with respect to its dealings and operations, with the Islamic Sharia. For this purpose, the Sharia Supervisory Board shall inspect the contracts, agreements, policies and dealings made by the Company with third parties. The Sharia Supervisory Board is entitled to full-unrestricted access to and review of 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 Sharia Supervisory Board with all data and information required for the performance of its tasks. The Sharia Supervisory Board shall submit an annual report to the Bank's General Assembly including its opinion in respect of the compliance of the Bank's business and operations with the principles of Islamic Sharia as well as its remarks in this respect. Such a 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 Sharia Supervisory Board, its duties, powers, meetings and organization of its relations with the Company's departments.

The Board of Directors shall appoint, upon the recommendation of the Sharia Supervisory Board, an internal Sharia auditor for the Company to monitor all the Company's business and affairs and the compliance thereof with the resolutions and recommendations issued by the Sharia Supervisory Board. The internal Sharia auditor shall submit his reports and remarks to the chairman of the Sharia Supervisory Board.

Article (46)

If a dispute arises between the members of the Sharia Supervisory Board relating to a Sharia opinion on a subject referred to the Sharia Supervisory Board, 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 whose opinion shall be binding and final.

Article (47)

No members of the Sharia Supervisory Board may be suspended or discharged except by a resolution passed by the General Assembly while stating the reasons for taking such an action

Chapter IV
The Company's Accounts

Article (48)

The Company shall have one or more auditors who shall be chartered accountants. The General Assembly shall appoint such auditors and determine their fees. The auditors 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, and in particular, their right to inspect at any time all the Company's books, registers and documentation and to request and obtain any data they deem necessary. They shall also have the right to verify the Company's assets and liabilities. In case they were unable to 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 reflect the actual financial position of the Company, whether the company keeps proper books of accounts, and whether an inventory has been duly carried out in accordance with the standard practice, and whether the data appearing in the Board Directors report are consistent with Company's books. The report should further show whether any violations against the provisions of the Company's Articles of Association or the provisions of the Law took place during the fiscal year in a manner adversely affecting the Company's business or its financial position, while stating whether such violations are still outstanding. The auditors shall be responsible for the veracity of the data contained in their report in their capacity as the attorneys of all shareholders. Each shareholder may make, discuss and request any clarifications from 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's reserves in addition to the depreciation, reserves and allocations required by Law or usage or as provided for herein. Part of the gross profits to be determined by the Broad shall be deducted for assets' depreciation and to compensate for the impairment of their value. Moreover, part of the profits shall be deducted upon the recommendation of the Board and after the approval of the General Assembly to fulfill the Company's liabilities undertaken under the labor laws.

Article (53)

Net profits 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 and allocated for the voluntary reserve. Such a deduction shall be stopped by virtue of a resolution from the Ordinary General Assembly upon the approval of the Broad of the Directors and the 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 the amount paid for the value of their shares.
- An amount approved by the Ordinary General Assembly shall be allocated for the Board's remunerations provided such an amount shall not exceed 10% of the net profits after the pervious deductions.
- The remaining profits shall be distributed to the shareholders as an additional share of profits or to be carried forward upon the proposal of the Board of Directors to the next year or to be allocated to form the profits settlement reserve to secure 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 venue and dates determined by the Board of Directors.

Article (55)

The statutory reserve may not be distributed to shareholders but may be used to secure the distribution of profits up to 5% in the years when the Company's profits do not permit such limit. If the statutory reserve exceeds half the Company's Capital, the General Assembly may decide to stop this deduction and 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 (56)[23]

The Company shall cease to exist upon the materialization of any of the events stipulated in Decree Law no. 25 of 2012, promulgating the Companies Law, and Law no. 32 of 1968, as amended, and the company shall enter the stage of liquidation.

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

Article (57)[24]

Liquidation of the Company's monies upon its dissolution shall be carried out pursuant to the provisions of Decree Law no. 25 of 2012, promulgating the Companies' Law, as amended, and Law no. 32 of 1968, as amended.

Article (58)[25]

The provisions of Decree Law no. 25 of 2012, 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 Hassan Salem **Authentication Officer: Reda Bdeer Arafat**

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

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

BOUBYAN BANK K.S.C.P. AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2021

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

CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

For the year ended 31 December 2021

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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 2021, 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 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs"), as adopted by the Central Bank of Kuwait ("CBK") for use by the State of Kuwait.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code), 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 key audit matter below, our description of how our audit addressed the matter is provided in that context.

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

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

Key Audit Matters (continued)

We have identified the following key audit matter:

Credit losses on Islamic financing to customers

The recognition of credit losses on cash and non-cash Islamic financing ("credit facilities") to customers is the higher of Expected Credit Loss ("ECL") under International Financial Reporting Standard 9: Financial Instruments ("IFRS 9"), determined in accordance with 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 in Note 3.5 and Note 13 to the consolidated financial statements.

Recognition of ECL under IFRS 9, determined in accordance with CBK guidelines, is a complex accounting policy, which requires considerable judgement in its implementation. ECL is dependent on management's judgement in assessing significant increase in credit risk and classification of credit facilities into various stages; determining when a default has occurred, development of models for assessing the probability of default of customers and estimating cash flows from recovery procedures or realization of collateral. As disclosed in Note 33, the COVID-19 global pandemic significantly impacted management's determination of the ECL and required the application of heightened judgment. As a result, the ECL has a higher than usual degree of uncertainty and the inputs used are inherently subject to change, which may materially change the estimate in future periods.

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

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

Our audit procedures included assessing the design and implementation of controls over the inputs and assumptions used by the Group in developing the models, its governance and review controls performed by the management in determining the adequacy of credit losses. Further, our audit procedures were updated to incorporate consideration of the economic disruption caused by COVID-19, including a focus on rescheduled credit facilities.

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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)

Key Audit Matters (continued)

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

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

Other information included in the Annual Report of the Group for the year ended 31 December 2021
Management is responsible for the other information. Other information consists of the information included in Annual Report of the Group for the year ended 31 December 2021, other than the consolidated financial statements and our auditors' report thereon. We obtained the report of the Bank's Board of Directors, prior to the date of our auditors' report, and we expect to obtain the remaining sections of the Group's Annual Report for the year ended 31 December 2021 after the date of our auditors' report.

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

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

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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)

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 the 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 the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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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)

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

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

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of account have been kept by the Bank and the consolidated financial statements, together with the contents of the report of the Bank's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the Central Bank of Kuwait ("CBK") as stipulated in CBK Circular Nos. 2/RB, RBA/336/2014 dated 24 June 2014, and its amendments, and 2/I.B.S. 343/2014 dated 21 October 2014, and its amendments, respectively, the Companies Law No 1 of 2016, as amended, and its executive regulations, as amended, or by the Bank's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the CBK as stipulated in CBK Circular Nos. 2/RB, RBA /336/2014 dated 24 June 2014, and its amendments and 2/I.B.S. 343/2014 dated 21 October 2014, and its amendments, respectively, the Companies Law No 1 of 2016, as amended, and its executive regulations, as amended, or of the Bank's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2021 that might have had a material effect on the business of the Bank or on its financial position.

We further report that, during the course of our 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 2021 that might have had a material effect on the business of the Bank or on its financial position.

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

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

26 January 2022
Kuwait

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the year ended 31 December 2021

	Notes	2021 KD'000s	2020 KD'000s
Income			
Murabaha and other Islamic financing income	5	**223,185**	223,064
Finance cost and distribution to depositors		**(65,678)**	(84,175)
Net financing income		**157,507**	138,889
Net investment income	6	**8,800**	6,836
Net fees and commission income	7	**16,795**	12,275
Net foreign exchange gain		**4,679**	5,157
Other income		**-**	4,325
Net operating income		**187,781**	167,482
Staff costs		**(52,449)**	(45,230)
General and administrative expenses		**(25,223)**	(20,011)
Depreciation		**(9,566)**	(9,156)
Operating expenses		**(87,238)**	(74,397)
Operating profit before provision for impairment		**100,543**	93,085
Provision for impairment	8	**(50,751)**	(59,015)
Operating profit before taxation and board of directors' remuneration		**49,792**	34,070
Taxation	9	**(1,257)**	(73)
Board of directors' remuneration		**(580)**	(450)
Net profit for the year		**47,955**	33,547
Attributable to:			
Equity holders of the Bank		**48,494**	34,421
Non-controlling interests		**(539)**	(874)
Net profit for the year		**47,955**	33,547
Basic and diluted earnings per share attributable to the equity holders of the Bank (fils)	10	**13.57**	9.20

The notes from 1 to 33 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2021

	2021 KD'000s	2020 KD'000s
Net profit for the year	**47,955**	33,547
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	**4,789**	(2,861)
Foreign currency translation adjustments	**(1,839)**	687
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	**(157)**	(5,669)
Re-measurement loss on post-employment benefits (note 19).	**(484)**	(3,092)
Other comprehensive income/(loss) for the year	**2,309**	(10,935)
Total comprehensive income for the year	**50,264**	22,612
Attributable to:		
Equity holders of the Bank	**51,636**	21,784
Non-controlling interests	**(1,372)**	828
Total comprehensive income for the year	**50,264**	22,612

The notes from 1 to 33 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

	Notes	**2021** KD'000s	2020 KD'000s
Assets			
Cash and balances with banks	11	**350,500**	286,718
Deposits with Central Bank of Kuwait		**225,858**	336,934
Deposits with other banks	12	**387,915**	180,092
Islamic financing to customers	13	**5,513,074**	4,823,266
Investment in Sukuk	14	**529,253**	523,046
Other investment securities	14	**125,875**	103,182
Investment properties	16	**21,706**	47,133
Other assets	17	**89,515**	45,419
Property and equipment		**108,203**	91,359
Total assets		**7,351,899**	6,437,149
Liabilities and Equity			
Liabilities			
Due to banks		**395,150**	281,371
Depositors' accounts		**5,618,787**	5,107,728
Medium term financing	18	**485,371**	305,509
Other liabilities	19	**102,519**	115,811
Total liabilities		**6,601,827**	5,810,419
Equity			
Share capital	20	**317,970**	302,827
Share premium	21	**156,942**	156,942
Proposed bonus shares	22	**15,898**	15,143
Treasury shares	23	**(54)**	(54)
Statutory reserve	24	**40,651**	35,512
Voluntary reserve	25	**15,327**	15,327
Other reserves	25	**(3,193)**	(21,958)
Retained earnings		**4,100**	14,121
Proposed cash dividends	22	**15,896**	-
Equity attributable to equity holders of the Bank		**563,537**	517,860
Perpetual Tier 1 Sukuk	26	**150,385**	75,388
Non-controlling interests		**36,150**	33,482
Total equity		**750,072**	626,730
Total liabilities and equity		**7,351,899**	6,437,149

Abdulaziz Abdullah Dakheel Al-Shaya
Chairman

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

The notes from 1 to 33 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 2021

	Share capital	Share premium	Proposed bonus shares	Treasury shares	Statutory reserve	Voluntary 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'000s	KD'000s	KD'000s	KD'000s	KD'000s	KD'000s	KD'000s	KD'000s	KD'000s	KD'000s	KD'000s	KD'000s	KD'000s
Balance at 1 January 2021	**302,827**	**156,942**	**15,143**	**(54)**	**35,512**	**15,327**	**(21,958)**	**14,121**	**-**	**517,860**	**75,388**	**33,482**	**626,730**
Profit for the year	-	-	-	-	-	-	-	**48,494**	-	**48,494**	-	**(539)**	**47,955**
Other comprehensive income / (loss) for the year	-	-	-	-	-	-	**3,142**	-	-	**3,142**	-	**(833)**	**2,309**
Total comprehensive income / (loss) for the year	-	-	-	-	-	-	**3,142**	**48,494**	-	**51,636**	-	**(1,372)**	**50,264**
Net transfer to retained earnings for equity investment at FVOCI	-	-	-	-	-	-	**15,623**	**(15,623)**	-	-	-	-	-
Issue of bonus shares (note 22)	**15,143**	-	**(15,143)**	-	-	-	-	-	-	-	-	-	-
Redemption of Tier 1 Sukuk (note 26)	-	-	-	-	-	-	-	-	-	-	**(75,388)**	-	**(75,388)**
Issue of Tier 1 Sukuk (note 26)	-	-	-	-	-	-	-	**(610)**	-	**(610)**	**150,385**	-	**149,775**
Profit paid on Perpetual Tier 1 Sukuk	-	-	-	-	-	-	-	**(5,349)**	-	**(5,349)**	-	-	**(5,349)**
Other movement in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	**4,040**	**4,040**
Proposed bonus shares (note 22)	-	-	**15,898**	-	-	-	-	**(15,898)**	-	-	-	-	-
Proposed cash dividends (note 22)	-	-	-	-	-	-	-	**(15,896)**	**15,896**	-	-	-	-
Transfer to reserves	-	-	-	-	**5,139**	-	-	**(5,139)**	-	-	-	-	-
Balance at 31 December 2021	**317,970**	**156,942**	**15,898**	**(54)**	**40,651**	**15,327**	**(3,193)**	**4,100**	**15,896**	**563,537**	**150,385**	**36,150**	**750,072**
Balance at 1 January 2020	288,407	156,942	14,420	(54)	31,848	30,468	(8,354)	35,817	25,954	575,448	75,388	2,345	653,181
Profit for the year	-	-	-	-	-	-	-	34,421	-	34,421	-	(874)	33,547
Other comprehensive (loss)/ income for the year	-	-	-	-	-	-	(12,637)	-	-	(12,637)	-	1,702	(10,935)
Total comprehensive (loss)/ income for the year	-	-	-	-	-	-	(12,637)	34,421	-	21,784	-	828	22,612
Acquisition of non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	30,581	30,581
Modification loss of deferral of financing instalments * (note 2 and 33)	-	-	-	-	-	-	-	(48,232)	-	(48,232)	-	-	(48,232)
Dividends paid (note 22)	-	-	-	-	-	-	-	-	(25,954)	(25,954)	-	(171)	(26,125)
Profit paid on Perpetual Tier 1 Sukuk	-	-	-	-	-	-	-	(5,186)	-	(5,186)	-	-	(5,186)
Transfer of share based payment reserve	-	-	-	-	-	-	(967)	967	-	-	-	-	-
Other movement in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(101)	(101)
Issue of bonus shares (note 22)	14,420	-	(14,420)	-	-	-	-	-	-	-	-	-	-
Transfer to reserves	-	-	-	-	3,664	-	-	(3,664)	-	-	-	-	-
Proposed bonus shares (note 22)	-	-	15,143	-	-	(15,141)	-	(2)	-	-	-	-	-
Proposed cash dividends (note 22)	-	-	-	-	-	-	-	-	-	-	-	-	-
Balance at 31 December 2020	302,827	156,942	15,143	(54)	35,512	15,327	(21,958)	14,121	-	517,860	75,388	33,482	626,730

The notes from 1 to 33 form an integral part of these consolidated financial statements.

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

	Notes	2021 KD'000s	2020 KD'000s
OPERATING ACTIVITIES			
Net profit for the year		**47,955**	33,547
Adjustments for:			
Provision for impairment	8	**50,751**	59,015
Depreciation		**9,566**	9,156
Foreign currency translation adjustments		**(1,402)**	2,087
Net gain from financial assets at fair value through profit or loss		**(2,202)**	(612)
Net gain from sale of debt investments at FVOCI		**(483)**	(418)
Share of results of associates		**(401)**	(272)
Net gain on acquisition of subsidiary		**-**	(2,726)
Unrealized (gain)/ loss from change in fair value of investment properties		**(577)**	1,553
Realized gain on sale of investment properties		**(475)**	-
Dividend income		**(3,053)**	(2,708)
Operating profit before changes in operating assets and liabilities		**99,679**	98,622
Changes in operating assets and liabilities:			
Deposits with Central Bank of Kuwait		**11,028**	20,131
Deposits with other banks		**7,288**	222,486
Islamic financing to customers		**(781,483)**	(675,722)
Other assets		**(3,097)**	15,904
Due to banks		**113,779**	(9,877)
Depositors' accounts		**511,059**	300,964
Other liabilities		**(3,970)**	19,928
Net cash used in operating activities		**(45,717)**	(7,564)
INVESTING ACTIVITIES			
Purchase of investment securities		**(239,113)**	(259,342)
Proceeds from sale/redemption of investment securities		**203,675**	79,827
Transaction costs related to acquisition of a subsidiary		**-**	(1,815)
Acquisition of a subsidiary, net of cash acquired		**-**	(325)
Dividends received from associates		**-**	36
Proceeds from sale of investment in associates		**201**	358
Proceeds from sale of investment properties		**26,636**	-
Purchase of investment properties		**(680)**	(1,773)
Purchase of property and equipment		**(26,410)**	(13,778)
Dividend income received		**3,053**	2,708
Net cash used in investing activities		**(32,638)**	(194,104)
FINANCING ACTIVITIES			
Transaction costs on issue of Perpetual Tier 1 Sukuk		**(610)**	-
Redemption of Tier 1 Sukuk		**(75,388)**	-
Profit distribution on perpetual Tier 1 Sukuk		**(5,349)**	(5,186)
Net proceeds from issue of Perpetual Tier 1 Sukuk		**150,385**	-
Dividends paid		**-**	(25,954)
Net movement of non-controlling interest		**4,040**	(272)
Net movement in medium term financing		**181,495**	304,938
Net cash generated from financing activities		**254,573**	273,526
Net increase in cash and cash equivalents		**176,218**	71,858
Net foreign exchange difference		**2,590**	5,605
Cash and cash equivalents at the beginning of the year		**587,200**	509,737
Cash and cash equivalents at the end of the year	11	**766,008**	587,200

The notes from 1 to 33 form an integral part of these consolidated financial statements.

1. INCORPORATION AND ACTIVITIES

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

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

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

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

The total number of employees in the Group was **2,051** employees as at 31 December 2021 (1,828 employees as at 31 December 2020).

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 9 January 2022 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 banks and other financial institutions regulated by CBK to adopt the International Financial Reporting Standards as issued by International Accounting Standards Board (IASB) with the following amendments:

(a) Expected credit loss ("ECL") to be measured at the higher of ECL provision on credit facilities computed under IFRS 9 in accordance with CBK guidelines or the provisions as required by CBK instructions along with its consequent impact on related disclosures; and

(b) Recognition of modification losses on financial assets arising from payment holidays to customers as a result of Covid during the financial year ended 31 December 2020, as required by CBK circular ref.2/BS/IBS/461/2020. Modification losses referred to in the circular, should be recognised in retained earnings instead of consolidated statement of profit or loss as would be required by IFRS 9. However, modification loss on financial assets arising from any other payment holidays to customers shall be recognized in the consolidated statement of profit or loss in accordance with IFRS 9. All modification losses incurred after the year ended 31 December 2020 are recognised in the consolidated statement of profit or loss. The application of the policy will result in application of different accounting presentation for modification losses in 2020 compared to 2021.

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

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 certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2021. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

2. BASIS OF PREPARATION (CONTINUED)

2.4 Changes in accounting policies and disclosures (continued)

Amendments to IFRS 16 Covid-19 Related Rent Concessions

On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

The amendment was intended to apply until 30 June 2021, but as the impact of the Covid-19 pandemic is continuing, on 31 March 2021, the IASB extended the period of application of the practical expedient to 30 June 2022.The amendment applies to annual reporting periods beginning on or after 1 April 2021. However, the Group has not received Covid-19-related rent concessions, but plans to apply the practical expedient if it becomes applicable within allowed period of application.

Interest Rate Benchmark Reform - Phase 2 Amendments to IFRS 9, IAS 39 IFRS 7, IFRS 4 and IFRS 16

In August 2020 the IASB issued Interest Rate Benchmark Reform - Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, (IBOR reform Phase 2) to address the accounting issues which arise upon the replacement of an IBOR with a risk-free rate ("RFR").

IBOR reform Phase 2 includes a number of reliefs and additional disclosures. The reliefs apply upon the transition of a financial instrument from an IBOR to RFR. As a practical expedient, changes to the basis for determining contractual cash flows as a result of interest rate benchmark reform are required to be treated as changes to a floating interest rate, provided that, for the financial instrument, the transition from the IBOR benchmark rate to RFR takes place on an economically equivalent basis.

The Group has exposure to the London Interbank offered rates (LIBOR), the benchmark rate, through its financial instruments, which will be replaced as part of the fundamental reform of various major profit rate benchmarks. The Group has undertaken a project under the oversight of a cross-functional IBOR Committee to manage its transition from LIBORs to alternative rates. The objectives of the IBOR Committee include evaluating the extent to which assets and liabilities are referenced to LIBOR cash flows, whether such contracts need to be amended as a result of those reforms and how to manage communication about LIBOR reform with counterparties. The new contracts to be entered by the Group on or after 1st January 2022 will be based on using various alternative benchmark interest rates including certain "risk-free" rates.

Transition away from LIBORs to the risk-free or alternative "reference rate" (RFR's) regime will affect the pricing of deposits, Islamic Financing to customers, hedging instruments and debt securities

Financial assets and liabilities

The Group's exposure to IBOR linked financial assets and liabilities is mainly through USD LIBOR. The Group will perform transition of these contracts to RFRs through bilateral agreements not later than June 2023.

The Group's exposure to financial assets and liabilities that are based on USD LIBOR maturing after June 2023 is **KD 364,237 thousands** and **KD 257,125 thousands** respectively. The Group is in discussion with the counterparties clients to effect an orderly transition of USD exposures to the relevant RFR.

Derivatives held for hedging purposes

The profit rate and cross currency swaps held for hedging purpose have exposure to various IBORs predominantly on USD LIBOR. These swaps are governed by the industry standard International Swaps and Derivatives Association (ISDA) Master Agreements that incorporate by reference the 2006 ISDA definitions. ISDA launched the IBOR fall backs supplement, a supplement to the 2006 ISDA definitions, and the IBOR fall backs protocol. IBOR fall backs protocol will enable adhering parties to amend legacy derivative transactions to include the updated rates and fall backs. The Group will follow IBOR fall backs protocol through adherence to ISDA Benchmark.

The notional value of USD LIBOR derivatives designated as fair value hedges, maturing after June 2023, is **KD 324,410 thousands** as at 31 December 2021. The Group has applied the hedging relief available under the amendments to IFRS 9 Financial Instruments relating to profit rate benchmark reforms such as relief on assessment of economic relationship between hedged items and hedging instruments except for the non-USD linked hedging instruments already transitioned to RFR rates

Other amendments to IFRSs which are effective for annual accounting period starting from 1 January 2021 did not have any material impact on the accounting policies, financial position or performance of the Group.

2. BASIS OF PREPARATION (CONTINUED)

2.5 New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations which are effective for annual periods beginning on or after 1 January 2022 have not been early adopted in the preparation of the Group's consolidated financial statements. None of these are expected to have a significant impact on the Group consolidated financial statements.

3 SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Basis of consolidation

The consolidated financial statements comprise the Bank and its principal operating subsidiaries (collectively "the Group") - Boubyan Takaful Insurance Company K.S.C (Closed) , Boubyan Capital Investment Company K.S.C (Closed) and BLME Holdings plc, as at 31 December 2021 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. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

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

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

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

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

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

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

3.1.2 Non-controlling interests

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

3.1.3 Subsidiaries

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Basis of consolidation (continued)

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.

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. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Revenue recognition

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

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

3.4 Government grants

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

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

3.5 Financial instruments

3.5.1 Financial assets

a) Trade and settlement date accounting

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

b) Recognition and derecognition of financial assets

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

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

c) Classification and Measurement of Financial assets

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

Cash and cash equivalents

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

Deposits with Banks, Central Bank of Kuwait and Islamic financing to customers

Deposits with banks, Central Bank of Kuwait 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (continued)

3.5.1 Financial assets (continued)

c) Classification and Measurement of Financial assets (continued)

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

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

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

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

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

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (continued)

3.5.1 Financial assets (continued)

c) Classification and Measurement of Financial assets (continued)

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

(i) Financial assets measured at amortised cost:

A financial asset is measured at amortised cost if it meets both of the following conditions:
- It is held within a business model whose objective is to hold assets to collect contractual cash flows ; and
- its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and profit on the principal amount outstanding

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

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

(i) Debt Securities (Sukuk) at FVOCI

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated at FVTPL:
- It is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

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

(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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (continued)

3.5.1 Financial assets (continued)

c) Classification and Measurement of Financial assets (continued)

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

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

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

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

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

Equity investments are not subject to Expected Credit Losses.

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (continued)

3.5.1 Financial assets (continued)

d) Impairment of financial assets (continued)

Expected Credit Losses (continued)

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 for corporates' finance and 45 days past due for Consumer finance are deemed to have significant increase in credit risk since initial recognition and migrated to stage 2 even if other criteria do not indicate a significant increase in credit risk except where the Group has reasonable and supportable information that demonstrates that the credit risk has not increased significantly even though the contractual payments are more than 30 to 45 days past due.

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (continued)

3.5.1 Financial assets (continued)

d) Impairment of financial assets (continued)

Expected Credit Losses (continued)

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.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (continued)

3.5.2 Financial liabilities

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

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

Financial liabilities comprise due to banks, depositors’ accounts and other liabilities.

Due to banks and depositors’ accounts

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

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

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

Saving Investment Accounts

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

Fixed-Term Deposit Investment Accounts

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

Open –Term Deposit Investment Accounts

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

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

Medium term financing

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

3.5.3 Offsetting

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

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

3.6 Fair values

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6 Fair values (continued)

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

3.7 Derivatives

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

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

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

3.8 Investment properties

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

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

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

3.9 Property and equipment

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

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

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

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

• Furniture and leasehold improvement	5 years
• Office equipment	3 years
• Software	10 years
• Furniture & Hardware	5 years
• Buildings on leasehold land	20 years
• Buildings on freehold land	50 years

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

3.10 Leases – Group as a lessee

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.10 Leases – Group as a lessee (continued)

a) Right-of-use assets

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

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

b) Lease liabilities

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

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

3.11 Impairment of non- financial assets

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

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

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

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

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

3.12 Provisions

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.13 Contingent liabilities and contingent assets

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

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

3.14 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.

3.15 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.

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.

3.16 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.

3.17 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.

3.18 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.

3.19 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.

3.20 Financial guarantees

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.21 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 30.8, the Group is required to determine and disclose the level in the fair value hierarchy into which the fair value measurements are categorized in their entirety, segregating fair value measurements in accordance with the levels defined in IFRS. Differentiating between Level 2 and Level 3 fair value measurements, i.e., assessing whether inputs are observable and whether the unobservable inputs are significant, may require judgement and a careful analysis of the inputs used to measure fair value, including consideration of factors specific to the asset or liability.

Classification of financial assets

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

4.2 Key sources of estimation uncertainty

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

Expected Credit Losses on financial assets

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

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

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

Impairment losses on Islamic finance facilities

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

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

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

4.2 Key sources of estimation uncertainty (continued)

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

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

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

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

5. MURABAHA AND OTHER ISLAMIC FINANCING INCOME

Islamic financing income includes financing income from customers of **KD 208,096 thousand** (2020: KD 208,576 thousand) and income from Sukuk of **KD 15,089 thousand** (2020: KD 14,488 thousand).

6. NET INVESTMENT INCOME

	2021	2020
	KD'000s	KD'000s
Dividend income	**3,053**	2,708
Net rental income from investment properties	**1,609**	1,653
Net gain from financial assets at FVTPL	**2,202**	612
Net gain from sale of debt investments at FVOCI	**483**	418
Unrealized gain/(loss) from changes in fair value of investment properties	**577**	(1,553)
Realized gain on sale of investment properties	**475**	-
Net gain on business combination	**-**	2,726
Share of result of associates	**401**	272
	8,800	6,836

7. NET FEES AND COMMISSION INCOME

	2021	2020
	KD'000s	KD'000s
Gross fees and commission income	**29,250**	21,950
Fees and commission expenses	**(12,455)**	(9,675)
	16,795	12,275

8. PROVISION FOR IMPAIRMENT

	2021	2020
	KD'000s	KD'000s
Provision for impairment of Islamic financing to customers	**40,214**	57,427
ECL – other financial assets	**(37)**	749
Impairment loss on other assets	**10,574**	839
	50,751	59,015

8. PROVISION FOR IMPAIRMENT (CONTINUED)

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

	Specific	General	Total
	KD'000s	KD'000s	KD'000s
Balance at 1 January 2020	12,476	56,735	69,211
Provision upon acquisition of subsidiary	5,100	6,372	11,472
(Release) / provided during the year	(5,689)	63,116	57,427
Recovery of written off balances	6,678	-	6,678
Written off balances during the year	(15,273)	-	(15,273)
Foreign currency differences	244	141	385
Balance at 31 December 2020	3,536	126,364	129,900
Provided during the year	**7,599**	**32,615**	**40,214**
Recovery of written off balances	**6,217**	**-**	**6,217**
Written off balances during the year	**(7,115)**	**-**	**(7,115)**
Foreign currency differences	**-**	**(507)**	**(507)**
Balance at 31 December 2021	**10,237**	**158,472**	**168,709**

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

	Islamic finance to customers	Non-cash facilities	Total
	KD'000s	KD'000s	KD'000s
Balance at 1 January 2020	66,621	2,590	69,211
Provision upon acquisition of subsidiary	11,472	-	11,472
Provided during the year	57,280	147	57,427
Recovery of written off balances	6,678	-	6,678
Written off balances during the year	(15,273)	-	(15,273)
Foreign currency differences	385	-	385
Balance at 31 December 2020	127,163	2,737	129,900
Provided during the year	**40,101**	**113**	**40,214**
Recovery of written off balances	**6,217**	**-**	**6,217**
Written off balances during the year	**(7,115)**	**-**	**(7,115)**
Foreign currency differences	**(507)**	**-**	**(507)**
Balance at 31 December 2021	**165,859**	**2,850**	**168,709**

At 31 December 2021, non-performing finance facilities amounted to **KD 45,060 thousand**, net of provision of **KD 10,237 thousand** (2020: KD 52,407 thousand, net of provision of KD 3,536 thousand). The analysis of specific and general provision stated above is based on Central Bank of Kuwait's instructions.

9. TAXATION

	2021	2020
	KD'000s	KD'000s
Contribution to Kuwait Foundation for the Advancement of Sciences ("KFAS")	**458**	330
Other taxes	**799**	(257)
	1,257	73

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.

	2021	2020
Net profit for the year attributable to the equity holders of the Bank (KD'000s)	**48,494**	34,421
Less: profit payment on Perpetual Tier 1 Sukuk (KD'000s)	**(5,349)**	(5,186)
	43,145	29,235
Weighted average number of shares outstanding during the year (thousands of shares)	**3,179,289**	3,179,321
Basic and diluted earnings per share attributable to the equity holders of the Bank (fils)	**13.57**	9.20

Earnings per share for the year ended 2020 was 9.66 fils per share before retroactive adjustment to the number of shares following the bonus issue (see note 22).

11. CASH AND CASH EQUIVALENTS

	2021	2020
	KD'000s	KD'000s
Cash and balances with banks	**350,500**	286,718
Placement with banks maturing within seven days	**415,508**	300,482
	766,008	587,200

12. DEPOSITS WITH OTHER BANKS

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

	2021	2020
	KD'000s	KD'000s
Kuwait & Middle East	**238,467**	140,672
Europe & UK	**149,544**	39,518
	388,011	180,190
Less: Expected credit losses (ECL)	**(96)**	(98)
	387,915	180,092

13. ISLAMIC FINANCING TO CUSTOMERS

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

	Kuwait & Middle East	**North America & Africa**	**Europe & UK**	**Total**
	KD'000s	**KD'000s**	**KD'000s**	**KD'000s**
2021				
Corporate banking	**2,707,487**	**7,704**	**558,331**	**3,273,522**
Consumer banking	**2,405,411**	**-**	**-**	**2,405,411**
	5,112,898	**7,704**	**558,331**	**5,678,933**
Less: provision for impairment	**(148,740)**	**(77)**	**(17,042)**	**(165,859)**
	4,964,158	**7,627**	**541,289**	**5,513,074**
2020				
Corporate banking	2,535,367	14,755	515,376	3,065,498
Consumer banking	1,884,931	-	-	1,884,931
	4,420,298	14,755	515,376	4,950,429
Less: provision for impairment	(114,773)	(148)	(12,242)	(127,163)
	4,305,525	14,607	503,134	4,823,266

13. ISLAMIC FINANCING TO CUSTOMERS (CONTINUED)

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

	Specific		General		Total	
	2021	2020	**2021**	2020	**2021**	2020
	KD'000s	KD'000s	**KD'000s**	KD'000s	**KD'000s**	KD'000s
Balance at beginning of the year	**3,216**	12,147	**123,947**	54,474	**127,163**	66,621
Provided/(release) during the year	**7,479**	(5,680)	**32,622**	62,960	**40,101**	57,280
Provision upon acquisition of subsidiary	**-**	5,100	**-**	6,372	**-**	11,472
Recovery of written off balances	**6,217**	6,678	**-**	-	**6,217**	6,678
Written off balances during the year	**(7,115)**	(15,273)	**-**	-	**(7,115)**	(15,273)
Foreign currency differences	**-**	244	**(507)**	141	**(507)**	385
Balance at end of the year	**9,797**	3,216	**156,062**	123,947	**165,859**	127,163

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

	Corporate banking		Consumer banking		Total	
	2021	2020	**2021**	2020	**2021**	2020
	KD'000s	KD'000s	**KD'000s**	KD'000s	**KD'000s**	KD'000s
Balance at beginning of the year	**1,592**	8,785	**1,624**	3,362	**3,216**	12,147
Provided/(release) during the year	**8,707**	(8,253)	**(1,228)**	2,573	**7,479**	(5,680)
Provision upon acquisition of subsidiary	**-**	5,100	**-**	-	**-**	5,100
Recovery of written off balances	**1,467**	4,842	**4,750**	1,836	**6,217**	6,678
Written off balances during the year	**(5,923)**	(9,126)	**(1,192)**	(6,147)	**(7,115)**	(15,273)
Foreign currency differences	**-**	244	**-**	-	**-**	244
Balance at end of the year	**5,843**	1,592	**3,954**	1,624	**9,797**	3,216

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:

	2021	2020
	KD'000s	KD'000s
Islamic financing to customers	**52,712**	55,607
Specific provision for impairment	**(9,797)**	(3,216)
	42,915	52,391

At 31 December 2021, management estimates the fair value of collaterals held against individually impaired Islamic finance facilities to be **KD 62,701 thousand** (2020: KD 89,357 thousand).

The ECL for Islamic financing (Cash and non-cash) as at 31 December 2021 is **KD 63,490 thousand** (2020: KD 62,255 thousand) which is lower than the provision for impairment of Islamic finance to customers required under CBK regulations.

The available provision for impairment on non-cash facilities of **KD 2,850 thousand** (31 December 2020: KD 2,737 thousand) is included under other liabilities.

13. ISLAMIC FINANCING TO CUSTOMERS (CONTINUED)

An analysis of the carrying amounts of Islamic financing to customers, and the corresponding Expected Credit Losses based on the staging criteria under IFRS 9 in accordance with CBK regulations. For contingent liabilities, the amounts in the table represent the amounts committed or guaranteed, respectively.

	Stage 1	Stage 2	Stage 3	Total
	KD'000s	KD'000s	KD'000s	KD'000s
31 December 2021				
High	**5,154,280**	**34,256**	**-**	**5,188,536**
Standard	**213,412**	**224,273**	**-**	**437,685**
Impaired	**-**	**-**	**52,712**	**52,712**
Islamic financing to customers	**5,367,692**	**258,529**	**52,712**	**5,678,933**
High	**295,287**	**3,175**	**-**	**298,462**
Standard	**28,459**	**63,232**	**-**	**91,691**
Impaired	**-**	**-**	**3,517**	**3,517**
Contingent Liabilities (Note 28)	**323,746**	**66,407**	**3,517**	**393,670**
31 December 2020				
High	4,392,570	76,080	-	4,468,650
Standard	262,895	163,277	-	426,172
Impaired	-	-	55,607	55,607
Islamic financing to customers	4,655,465	239,357	55,607	4,950,429
High	268,649	5,662	-	274,311
Standard	36,042	79,858	-	115,900
Impaired	-	-	1,523	1,523
Contingent Liabilities (Note 28)	304,691	85,520	1,523	391,734

An analysis of the changes in the Expected Credit Losses in relation to Islamic financing to customers (cash and non-cash facilities) computed under IFRS 9 in accordance to the CBK guidelines:

	Stage 1	Stage 2	Stage 3	Total
	KD 000's	KD 000's	KD 000's	KD 000's
31 December 2021				
ECL allowance as at 1 January 2021	**20,316**	**19,779**	**22,160**	**62,255**
Impact due to transfer between stages				
Transfer from Stage 1	**(771)**	**327**	**444**	**-**
Transfer from Stage 2	**1,191**	**(3,680)**	**2,489**	**-**
Transfer from Stage 3	**904**	**4,078**	**(4,982)**	**-**
Additional ECL for the year	**800**	**(5,865)**	**7,353**	**2,288**
Amounts written off and recoveries	**-**	**-**	**(896)**	**(896)**
Foreign currency translation	**(23)**	**(11)**	**(123)**	**(157)**
At 31 December 2021	**22,417**	**14,628**	**26,445**	**63,490**
31 December 2020				
ECL allowance as at 1 January 2020	15,781	5,798	32,402	53,981
ECL upon acquisition of subsidiary	1,362	1,042	2,651	5,055
Impact due to transfer between stages				
Transfer from Stage 1	(1,337)	1,130	207	-
Transfer from Stage 2	1,099	(1,487)	388	-
Transfer from Stage 3	2,747	460	(3,207)	-
Additional ECL for the year	585	12,765	(1,888)	11,462
Amounts written off and recoveries	-	-	(8,595)	(8,595)
Foreign currency translation	79	71	202	352
At 31 December 2020	20,316	19,779	22,160	62,255

14. INVESTMENT SECURITIES

	2021	2020
	KD'000s	KD'000s
Investment in Sukuk	**529,253**	523,046
Financial assets at fair value through profit or loss	**102,848**	81,691
Financial assets at fair value through other comprehensive income	**19,853**	17,418
Investment in associates	**3,174**	4,073
	655,128	626,228

	2021	2020
	KD'000s	KD'000s
Investment in Sukuk		
Investment in Sukuk- FVOCI	**510,388**	504,218
Investment in Sukuk- FVTPL	**18,865**	18,828
	529,253	523,046

	2021	2020
	KD'000s	KD'000s
Financial assets at fair value through profit or loss		
Investment in unquoted equity funds	**102,848**	81,691
	102,848	81,691

	2021	2020
	KD'000s	KD'000s
Financial assets at fair value through other comprehensive income		
Investment in unquoted equity securities	**16,600**	15,408
Investment in quoted equity securities	**3,253**	2,010
	19,853	17,418

15. SUBSIDIARIES

15.1 Details of principal operating subsidiaries are as follows:

Name of subsidiary	Country of incorporation	Principal activity	Effective ownership %	
			2021	2020
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	**100.00**	100.00
BLME Holdings Plc, ("BLME")	United Kingdom	Islamic Banking	**71.08**	71.08

15.2 Material partly-owned subsidiary

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

Proportion of equity interest held by non-controlling interests:

Name of subsidiary	Country of incorporation	Principal activity	Effective ownership %	
			2021	2020
BLME Holdings Plc, ("BLME")	United Kingdom	Islamic Banking	**28.92**	28.92

15. SUBSIDIARIES (CONTINUED)

15.2 Material partly-owned subsidiary (continued)

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

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

	2021	2020
	KD 000's	KD 000's
Revenues	**16,984**	13,710
Expenses	**(21,495)**	(11,939)
(Loss)/profit for the year	**(4,511)**	1,771
Total comprehensive (loss)/income	**(4,643)**	1,719
Attributable to non-controlling interest:		
(Loss)/profit for the year	**(1,721)**	608
Other comprehensive (loss)/income	**613**	497
	(1,108)	1,105

Summarised consolidated statement of financial position as at:

	2021	**2020**
	KD 000's	**KD 000's**
Total assets	**666,778**	708,141
Total liabilities	**565,845**	600,989
Total equity	**100,933**	107,152
Attributable to:		
Equity holders of the Bank	**69,157**	73,639
Non-controlling interest	**31,776**	33,513
	100,933	107,152

Summarised consolidated statement of cash flows for year ended:

	2021	**2020**
	KD 000's	**KD 000's**
Net cash (used in)/generated from operating activities	**(59,340)**	38,223
Net cash generated from investing activities	**9,753**	11,653
Net cash (used in)/generated from financing activities	**(130)**	2,560
Net (decrease)/increase in cash and cash equivalents	**(49,717)**	52,436

16. INVESTMENT PROPERTIES

The movement in the investment properties is as follows:

	2021	2020
	KD'000s	KD'000s
Balance at the beginning of the year	**47,133**	46,555
Additions during the year	**680**	1,773
Disposal during the year	**(26,161)**	-
Net unrealized gain/(loss) from change in fair value of investment properties	**577**	(1,553)
Foreign currency translation adjustments	**(523)**	358
Balance at the ending of the year	**21,706**	47,133

The fair values were determined based on different valuation approaches. The following table provides the fair value measurement hierarchy of the investment properties

	Level 1	**Level 2**	**Level 3**	**Total**
	KD'000's	**KD'000's**	**KD'000's**	**KD'000's**
2021				
Investment properties	**-**	**11,033**	**10,673**	**21,706**
2020				
Investment properties	-	37,130	10,003	47,133

17. OTHER ASSETS

	2021	2020
	KD'000s	KD'000s
Due from Ministry of Finance for instalment deferrals (note 33)	**51,574**	-
Accrued income	**4,267**	4,360
Prepayments	**4,056**	3,934
Others	**29,618**	37,125
	89,515	45,419

18. MEDIUM TERM FINANCING

	2021	2020
	KD'000s	KD'000s
Global Medium Term Sukuk ("GMTN programme")*	**229,137**	229,713
Other medium term financing**	**256,234**	75,796
	485,371	305,509

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

** Other medium term financing has a tenor of three years and carry a profit rate in the range of 1.32% to 1.66%.

19. OTHER LIABILITIES

	2021	2020
	KD'000s	KD'000s
Creditors and accruals	**26,809**	26,741
Accrued staff benefits	**11,867**	9,174
Post-Employment Benefit	**15,789**	13,320
Provision on non-cash facilities (note 8)	**2,850**	2,737
Others	**45,204**	63,839
	102,519	115,811

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 **3.75%** (2020: 3.75%), future salary increases in line with expected consumer price inflation and demographic assumptions of mortality, withdrawal, retirement and disability rates.

20. SHARE CAPITAL

	2021		2020	
	Shares	**KD'000s**	Shares	KD'000s
Shares authorised, issued and fully paid in cash and bonus shares.	**3,179,697,604**	**317,970**	3,028,283,433	302,827

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. DIVIDEND

The Annual General Assembly meeting of the shareholders held on 7 March 2021 approved 5% bonus shares (2019: 5%) and a cash dividend of **Nil** fils per share (2019: 9 fils per share) for the year ended 31 December 2020. The bonus shares increased the number of issued and fully paid up shares by **151,414,171** shares (2019: 144,203,973 shares) and increase in share capital by **KD 15,141 thousand** (2019: KD 14,420 thousand). The approved bonus shares were distributed on 14 April 2021.

The board of directors recommended distribution of cash dividends of **5** fils per share and bonus share of **5%** for the year ended 31 December 2021. 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:

	2021	2020
Number of treasury shares	**420,376**	368,687
Treasury shares as a percentage of total issued shares - %	**0.01322%**	0.01218%
Cost of treasury shares (KD'000s)	**54**	54
Market value of treasury shares (KD'000s)	**332**	210
Weighted average of market value per share (fils)	**0.711**	0.569

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, a minimum of 10% profit for the year attributable to the shareholders of the Bank before KFAS, NLST, Zakat and Board of directors' remuneration is transferred to statutory reserve based on the recommendation of the Banks's Board of Directors. The Bank may resolve to discontinue such annual transfers when the reserve equals 50% of the capital. This reserve is not available for distribution except in cases stipulated by law and the Bank's Articles of Association.

25. OTHER RESERVES

	Share based payment reserve	**Fair value reserve**	**Foreign currency translation reserve**	**Change in actuarial valuation reserve**	**Total**
	KD'000s	**KD'000s**	**KD'000s**	**KD'000s**	**KD'000s**
Balance at 1 January 2021	**-**	**(8,363)**	**(10,503)**	**(3,092)**	**(21,958)**
Other comprehensive income/(loss)	-	4,631	(1,005)	(484)	3,142
Total comprehensive income/(loss) for the year	**-**	**4,631**	**(1,005)**	**(484)**	**3,142**
Net transfer to retained earnings for equity investments at FVOCI	**-**	**15,623**	**-**	**-**	**15,623**
Balance at 31 December 2021	**-**	**11,891**	**(11,508)**	**(3,576)**	**(3,193)**

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

Voluntary reserve

As required by the Bank's Articles of Association, a maximum of 10% of the profit for the year attributable to the shareholders of the Bank before Board of directors' remuneration is transferred to the voluntary reserve. Such annual transfers may be discontinued by a resolution of the shareholders' General Assembly upon a recommendation by the Board of Directors. On 7 March 2021, the shareholders' General Assembly approved to discontinue the transfers to the voluntary reserve.

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).

26. PERPETUAL TIER 1 SUKUK

On 1 April 2021, the Bank has issued "Tier 1 Sukuk – 2021", through a Sharia's compliant Sukuk arrangement amounting to USD 500 million which was fully allocated. Tier 1 Sukuk -2021 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 – 2021 is callable by the Bank on 1 October 2026 and bears an expected profit rate of 3.95% per annum to be paid semi-annually in arrears. The expected profit rate will be reset on 1 April 2027 based on then prevailing 6 years US Treasury Rate plus initial margin of 2.896% per annum. The net proceeds are invested by way of Mudaraba with the Bank (as Mudareb) on an unrestricted co-mingling basis, by the Bank in its general business activities carried out through the general Mudaraba pool. Mudaraba profit will not be accumulated and the event is not considered an event of default.

The Tier 1 Sukuk issued in 2016 were redeemed partially on 1 April 2021 through a tender buy-back amounting to USD 73.9 million at a price of 100.40% of their nominal value and the balance Tier 1 Sukuk amounting to USD 176.1 million were redeemed together with profit accrued on its first call date of 16 May 2021. Premium paid on the tender buy-back along with the foreign exchange translation were recorded in the consolidated statement of changes in equity during the year.

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			
	2021	2020	**2021**	2020	**2021**	2020
					KD'000s	KD'000s
Islamic financing to customers	**7**	7	**-**	-	**310**	212
Depositors' accounts	**15**	16	**18**	17	**13,168**	7,407
Letters of guarantee and letters of credit	**1**	1	**2**	2	**370**	370
Murabaha and other Islamic financing income					**11**	14
Finance cost and distribution to depositors					**(3)**	(2)
Parent Company						
Due from banks					**117,243**	96,508
Due to banks					**31,797**	104,567
Depositors accounts					**508**	611
Murabaha and other Islamic financing income					**788**	1,842
Finance cost and distribution to depositors					**(920)**	(2,272)

The Group holds collaterals against Islamic finance facilities to related parties in the form of shares and real estate. An estimate of the fair value of collaterals held against Islamic finance facilities to related parties amounted to **KD 80 thousand** as at 31 December 2021(2020: KD 80 thousand).

Compensation of key management personnel:

Details of compensation for key management comprise the following:

	2021	2020
	KD'000s	KD'000s
Short-term benefits	**2,823**	2,669
Post-employment benefits	**459**	435
Deferred compensation	**730**	664
	4,012	3,768

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:

	2021	2020
	KD'000s	KD'000s
Guarantees	**292,528**	287,185
Acceptances and letters of credit	**101,142**	104,549
Other commitments	**125,818**	119,206
	519,488	510,940

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 Group is organized into the following four major business segments:

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

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

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

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

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

	Consumer banking	**Corporate banking**	**Investment banking and International operations**	**Treasury**	**Group centre**	**Total**
2021	**KD'000s**	**KD'000s**	**KD'000s**	**KD'000s**	**KD'000s**	**KD'000s**
Net financing income	**91,038**	**46,457**	**9,566**	**6,261**	**4,185**	**157,507**
Operating income	**99,707**	**52,838**	**28,054**	**10,924**	**(3,742)**	**187,781**
Net profit/(loss) for the year	**59,071**	**47,727**	**(2,776)**	**10,221**	**(66,288)**	**47,955**
Total assets	**2,401,709**	**3,193,247**	**806,299**	**863,164**	**87,480**	**7,351,899**
Total liabilities	**3,388,869**	**375,111**	**776,769**	**1,721,360**	**339,718**	**6,601,827**
2020						
Net financing income	78,488	41,967	6,344	5,322	6,768	138,889
Operating income	84,194	46,377	17,898	10,480	8,533	167,482
Net profit/(loss) for the year	49,783	51,898	798	9,830	(78,762)	33,547
Total assets	1,883,992	2,981,778	845,877	660,504	64,998	6,437,149
Total liabilities	2,792,244	581,432	705,176	1,431,374	300,193	5,810,419

Geographical segment

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

	Middle East & North Africa	**North America**	**Europe & UK**	**Asia**	**Total**
	KD'000s	**KD'000s**	**KD'000s**	**KD'000s**	**KD'000s**
2021					
Assets	**6,485,099**	**48,336**	**695,527**	**122,937**	**7,351,899**
Non-current assets (excluding financial instruments)	**204,704**	**159**	**17,814**	**-**	**222,677**
Liabilities and equity	**6,758,566**	**29,309**	**411,091**	**152,933**	**7,351,899**
Segment income	**175,894**	**6,755**	**3,003**	**2,129**	**187,781**
2020					
Assets	5,696,066	75,849	545,023	120,211	6,437,149
Non-current assets (excluding financial instruments)	149,314	25,594	12,381	695	187,984
Liabilities and equity	5,899,459	13,171	522,264	2,255	6,437,149
Segment income	166,902	2,602	(1,566)	(456)	167,482

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 market and profit rate risk. Collateral is used to reduce the Group's credit risk.

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

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 sectors. 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; or any credit impaired facility that has been restructured.

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

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

The Group has also considered the potential impact of the uncertainties caused by the Covid-19 pandemic together with the associated economic support and relief measures of governments and central banks in its estimation of ECL requirements for the year ended 31 December 2021.

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.2 Credit risk (continued)

30.2.1 Assessment of expected credit losses *(continued)*

Significant increase in credit risk

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

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

Measurement of ECLs

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

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

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

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

Incorporation of forward-looking information

The Group considers various key economic variables which reflect the continuing uncertainties and effect stemming from Covid-19 and other emerging risks, which may be expected to have an impact on credit risk and the expected credit losses (ECL), when incorporating forward-looking information into the ECL models. Key economic variables include, but are not limited to, Gross Domestic Product, Equity price index, Oil prices, and Government expenditure. Together, they provide reasonable indications and forecasts of future macro-economic conditions. The consideration of such factors increases the degree of judgment in determination of ECL. The Group employs statistical models which incorporate the effect of macro-economic factors to adjust the historical TTC PDs to arrive at the PiT PDs. The Group considers three scenarios (baseline, upside and downside) of forecasts of macro-economic data separately for designated geographies and segments, and appropriate probability weights are applied to these scenarios to derive a probability-weighted outcome of expected credit loss. Management reviews the methodologies and assumptions including any forecasts of future economic conditions, on a regular basis.

The weighting of the multiple scenarios increased the Bank's reported allowance for credit losses for financial assets, other than credit facilities, in Stage 1 and Stage 2, relative to the base case scenario, by **KD 546 thousands** (2020: increased by KD 158 thousands). If the Bank were to use only downside case scenario for the measurement of allowance for credit losses for financial assets, other than credit facilities, allowance for credit losses would be **KD 1,573 thousands** (2020: KD 561 thousands) higher than the reported allowance for credit losses as at 31 December 2021.

The weighting of the multiple scenarios increased bank's reported allowance for credit losses for financing receivables in Stage 1 and Stage 2, relative to our base case scenario, by **KD 4,864 thousands** (2020: KD 2,680 thousands). If the Bank were to use only downside case scenario for the measurement of allowance for credit losses for financing receivables, allowance for credit losses on performing loans would be **KD 6,794 thousands** (2020: KD 3,388 thousands) higher than the reported allowance for credit losses as at 31 December 2021.

Actual results will differ as this does not consider the migration of exposures or incorporate changes that would occur in the portfolio due to risk mitigation actions and other factors.

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

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

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

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

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

Exposure at default

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

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:

	2021		2020	
	Gross exposure	**Net exposure**	Gross exposure	Net exposure
	KD'000's	**KD'000's**	KD'000's	KD'000's
Islamic financing to customers	**5,513,074**	**3,579,219**	4,823,266	3,477,302
Contingent liabilities and capital commitments	**519,488**	**505,627**	510,940	502,012

Collateral and other credit enhancements

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

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 Islamic financing facilities outstanding as a percentage of gross facilities as at 31 December 2021 are **23.42%** (2020: 21.47%).

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 KD'000's	North America KD'000's	Europe & UK KD'000's	Asia KD'000's	Total KD'000's
2021					
Balances with banks	**266,874**	**24,089**	**20,616**	**49**	**311,628**
Deposits with Central Bank of Kuwait	**225,858**	**-**	**-**	**-**	**225,858**
Deposits with other banks	**245,706**	**23,128**	**119,081**	**-**	**387,915**
Islamic financing to customers	**4,971,785**	**-**	**541,289**	**-**	**5,513,074**
Investment in Sukuk	**395,526**	**-**	**-**	**133,727**	**529,253**
Other assets (excluding accrued income and prepayments)	**77,754**	**-**	**3,438**	**-**	**81,192**
	6,183,503	**47,217**	**684,424**	**133,776**	**7,048,920**
Contingent liabilities	**390,536**	**-**	**1,089**	**2,045**	**393,670**
Commitments	**96,514**	**-**	**29,304**	**-**	**125,818**
Total credit risk exposure	**6,670,553**	**47,217**	**714,817**	**135,821**	**7,568,408**
2020					
Balances with banks	103,918	55,479	89,986	47	249,430
Deposits with Central Bank of Kuwait	336,934	-	-	-	336,934
Deposits with other banks	140,988	13,966	25,138	-	180,092
Islamic financing to customers	4,313,921	6,211	503,134	-	4,823,266
Investment in Sukuk	403,236	-	-	119,810	523,046
Other assets (excluding accrued income and prepayments)	33,676	-	3,449	-	37,125
	5,332,673	75,656	621,707	119,857	6,149,893
Contingent liabilities	388,525	-	1,163	2,046	391,734
Commitments	100,115	-	19,091	-	119,206
Total credit risk exposure	5,821,313	75,656	641,961	121,903	6,660,833

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

	2021 KD'000's	2020 KD'000's
Trading	**146,277**	137,307
Manufacturing	**249,415**	203,742
Banking and other financial institutions	**1,029,626**	872,083
Construction	**212,319**	237,475
Real Estate	**1,310,732**	1,369,592
Retail	**2,318,578**	1,782,704
Government	**794,950**	717,669
Others	**987,023**	829,321
	7,048,920	6,149,893

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.2 Credit risk (continued)

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.

	High	**Standard**	**Impaired**	**Total**
	KD'000's	**KD'000's**	**KD'000's**	**KD'000's**
2021				
Balances with banks	**311,629**	**-**	**-**	**311,629**
Deposits with Central Bank of Kuwait	**225,877**	**-**	**-**	**225,877**
Deposits with other banks	**388,010**	**-**	**-**	**388,010**
Islamic financing to customers	**5,188,536**	**437,685**	**52,712**	**5,678,933**
Investment in Sukuk	**529,253**	**-**	**-**	**529,253**
Other assets (excluding accrued income and prepayment)	**81,192**	**-**	**-**	**81,192**
	6,724,497	**437,685**	**52,712**	**7,214,894**

	High	Standard	Impaired	Total
	KD'000's	KD'000's	KD'000's	KD'000's
2020				
Balances with banks	249,430	-	-	249,430
Deposits with Central Bank of Kuwait	336,988	-	-	336,988
Deposits with other banks	180,190	-	-	180,190
Islamic financing to customers	4,468,650	426,172	55,607	4,950,429
Investment in Sukuk	523,046	-	-	523,046
Other assets (excluding accrued income and prepayment)	37,125	-	-	37,125
	5,795,429	426,172	55,607	6,277,208

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	impaired	Past due and not impaired	impaired	Past due and not impaired	impaired
	KD'000's	KD'000's	KD'000's	KD'000's	KD'000's	KD'000's
2021						
Up to 30 days	**37,624**	**2,235**	**1,120**	**17**	**38,744**	**2,252**
31 – 60 days	**68**	**43**	**6,076**	**12**	**6,144**	**55**
61 – 90 days	**69**	**3**	**4,341**	**-**	**4,410**	**3**
91 – 180 days	**-**	**65**	**-**	**22**	**-**	**87**
More than 180 days	**-**	**45,070**	**-**	**5,245**	**-**	**50,315**
	37,761	**47,416**	**11,537**	**5,296**	**49,298**	**52,712**
2020						
Up to 30 days	49,087	282	10,053	538	59,140	820
31 – 60 days	295	-	4,135	43	4,430	43
61 – 90 days	287	79	4,794	24	5,081	103
91 – 180 days	-	5,675	-	112	-	5,787
More than 180 days	-	45,404	-	3,450	-	48,854
	49,669	51,440	18,982	4,167	68,651	55,607

At 31 December 2021 management estimates the fair value of collaterals held against individually past due and impaired Islamic finance facilities to KD **70,427 thousand** (2020: KD 90,961 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 securities, all of which are exposed to general and specific market movements and changes in the level of volatility of prices and profit rates.

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

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

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.

		2021		2020	
		Effect on profit KD'000's	**Effect on equity KD'000's**	Effect on profit KD'000's	Effect on equity KD'000's
US Dollar	+5	**(148)**	**141**	(289)	76
Sterling Pound	+5	**(52)**	**30**	4	-
Euro	+5	**3**	**-**	26	-
Sudanese Pound	+5	**1**	**72**	11	104
Japanese Yen	+5	**2**	**-**	2	-
Others	+5	**(164)**	**165**	(22)	110

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

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

For such investments classified as FVOCI, a five percent increase in stock prices as at 31 December 2021 would have increased equity by **KD 993 thousand** (2020: an increase of KD 871 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	3 to 6 months	6 months to one year	Over 1 year	Total
	KD'000's	KD'000's	KD'000's	KD'000's	KD'000's
2021					
Assets					
Cash and balances with banks	**350,500**	**-**	**-**	**-**	**350,500**
Deposits with Central Bank of Kuwait	**180,754**	**42,064**	**3,040**	**-**	**225,858**
Deposits with Banks	**387,915**	**-**	**-**	**-**	**387,915**
Islamic financing to customers	**1,998,579**	**416,170**	**294,167**	**2,804,158**	**5,513,074**
Investment in Sukuk	**87,232**	**32,659**	**19,225**	**390,137**	**529,253**
Other investment securities	**-**	**-**	**-**	**125,875**	**125,875**
Investment properties	**-**	**-**	**-**	**21,706**	**21,706**
Other assets	**70,550**	**-**	**3,865**	**15,100**	**89,515**
Property and equipment	**-**	**-**	**-**	**108,203**	**108,203**
Total assets	**3,075,530**	**490,893**	**320,297**	**3,465,179**	**7,351,899**
Liabilities and Equity					
Due to banks	**395,150**	**-**	**-**	**-**	**395,150**
Depositors' accounts	**4,084,631**	**693,090**	**536,709**	**304,357**	**5,618,787**
Medium term financing	**-**	**-**	**-**	**485,371**	**485,371**
Other liabilities	**31,272**	**-**	**30,722**	**40,525**	**102,519**
Equity	**-**	**-**	**-**	**750,072**	**750,072**
Total liabilities and equity	**4,511,053**	**693,090**	**567,431**	**1,580,325**	**7,351,899**
Derivative Financial instruments settled on a gross basis					
Contractual amounts payable	**244,341**	**266,559**	**106,024**	**-**	**616,924**
Contractual amounts receivable	**243,975**	**266,682**	**105,755**	**-**	**616,412**
2020					
Assets					
Cash and balances with banks	286,718	-	-	-	286,718
Deposits with Central Bank of Kuwait	279,763	51,120	6,051	-	336,934
Deposits with Banks	180,092	-	-	-	180,092
Islamic financing to customers	1,701,849	388,644	403,224	2,329,549	4,823,266
Investment in Sukuk	118,361	21,526	6,100	377,059	523,046
Other investment securities	-	-	-	103,182	103,182
Investment properties	-	-	-	47,133	47,133
Other assets	15,056	-	6,163	24,200	45,419
Property and equipment	-	-	-	91,359	91,359
Total assets	2,581,839	461,290	421,538	2,972,482	6,437,149
Liabilities and Equity					
Due to banks	281,371	-	-	-	281,371
Depositors' accounts	3,801,305	542,705	465,843	297,875	5,107,728
Medium term financing	-	-	-	305,509	305,509
Other liabilities	24,228	-	28,618	62,965	115,811
Equity	-	-	-	626,730	626,730
Total liabilities and equity	4,106,904	542,705	494,461	1,293,079	6,437,149
Derivative Financial instruments settled on a gross basis					
Contractual Amounts Payable	119,744	20,415	-	-	140,159
Contractual Amounts Receivable	124,720	20,446	-	-	145,166

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 KD'000's	**3 to 6 months KD'000's**	**6 months to one year KD'000's**	**Over 1 year KD'000's**	**Total KD'000's**
2021					
Financial liabilities					
Due to banks	**395,415**	**-**	**-**	**-**	**395,415**
Depositors' accounts	**4,085,304**	**695,793**	**538,895**	**307,951**	**5,627,943**
Medium term financing	**1,462**	**4,639**	**4,808**	**502,149**	**513,058**
	4,482,181	**700,432**	**543,703**	**810,100**	**6,536,416**
Contingent liabilities and capital commitments					
Contingent liabilities	**144,227**	**45,591**	**105,228**	**98,624**	**393,670**
Other commitments	**4,431**	**3,545**	**1,020**	**116,822**	**125,818**
	148,658	**49,136**	**106,248**	**215,446**	**519,488**

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

30.6 Profit Rate Risk

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

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

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

30.7 Operational risk

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

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

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

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.8 Fair value of financial instruments

Fair values are obtained from quoted market prices, discounted cash flow models and other models as appropriate. The carrying values of financial instruments are approximate to their fair values as at 31 December 2021 due to relatively short-term maturity of the instruments.

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

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

Fair value hierarchy

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

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

	Level 1	**Level 2**	**Level 3**	**Total**
2021	**KD'000's**	**KD'000's**	**KD'000's**	**KD'000's**
Financial assets at fair value through profit or loss	**-**	**102,848**	**-**	**102,848**
Investment in Sukuk	**529,253**	**-**	**-**	**529,253**
Financial assets at fair value through other comprehensive income	**3,253**	**-**	**16,600**	**19,853**
	532,506	**102,848**	**16,600**	**651,954**
2020				
Financial assets at fair value through profit or loss	-	81,691	-	81,691
Investment in Sukuk	523,046	-	-	523,046
Financial assets at fair value through other comprehensive income	2,010	-	15,408	17,418
	525,056	81,691	15,408	622,155

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

	At 1 January 2021	**Change in fair value**	**Additions/ transfers**	**Sale/ redemption**	**Exchange rate movements**	**At 31 December 2021**
	KD'000's	**KD'000's**	**KD'000's**	**KD'000's**	**KD'000's**	**KD'000's**
2021						
Assets measured at fair value						
Financial assets at fair value through other comprehensive income	**15,408**	**(701)**	**2,036**	**(144)**	**1**	**16,600**
	15,408	**(701)**	**2,036**	**(144)**	**1**	**16,600**

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

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.8 Fair value of financial instruments (continued)

Fair value hierarchy (continued)

The significant unobservable inputs used in the fair value measurement categorised within Level 3 of the fair value hierarchy together with a quantitative sensitivity analysis as at 31 December 2021 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.

30.9 Capital management

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

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

The Group's regulatory capital and capital adequacy ratios for the years ended 31 December 2021 and 31 December 2020 are calculated in accordance with Central Bank of Kuwait circular numbers 2/RB, RBA/336/2014 dated 24 June 2014, 2/BS/IBS/454/2020 dated 02 April 2020 and 2/RB, RBA/488/2021 dated 11 October 2021 related to Basel III regulations which are shown below:

	2021	2020
	KD'000's	KD'000's
Risk weighted assets	**4,727,562**	4,083,632
Capital required	**661,859**	551,290
Capital available		
Common Equity Tier 1 Capital	**567,528**	558,460
Additional Tier 1 Capital	**149,544**	78,015
Tier 1 Capital	**717,072**	636,475
Tier 2 Capital	**58,354**	51,864
Total Capital	**775,426**	688,339
Common Equity Tier 1 Capital Adequacy Ratio	**12.00%**	13.68%
Tier 1 Capital Adequacy Ratio	**15.17%**	15.59%
Total Capital Adequacy Ratio	**16.40%**	16.86%

The Group's financial leverage ratio for the year ended 31 December 2021 is calculated in accordance with Central Bank of Kuwait circular number 2/RBA/ 343/2014 dated 21 October 2014 and is shown below:

	2021	2020
	KD'000's	KD'000's
Tier 1 Capital	**717,072**	636,475
Total Exposures	**7,652,065**	6,794,257
Financial Leverage Ratio	**9.37%**	9.37%

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 2021 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 contracts

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

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

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

	2021			2020		
	Positive fair value	**Negative fair value**	**Notional**	Positive fair value	Negative fair value	Notional
	KD'000s	**KD'000s**	**KD'000s**	KD'000s	KD'000s	KD'000s
Profit rate swaps (held as fair value hedges)	**1,255**	**(13,583)**	**396,059**	-	(24,908)	345,618
Cross currency swaps	**895**	**(384)**	**607,357**	3,684	(271)	119,744
Forward foreign exchange contracts	**-**	**(10)**	**8,664**	12	(43)	20,415
	2,150	**(13,977)**	**1,012,080**	3,696	(25,222)	485,777

All of the above Islamic derivative financial instruments are included in Level 2 of fair value hierarchy as at 31 December 2021 and 2020.

32. FIDUCIARY ASSETS

The aggregate value of assets held in a trust or fiduciary capacity by the Group amounted to **KD 660,123 thousand** (2020: KD 517,186 thousand) and the related income from these assets amounted to **KD 3,634 thousand** (2020: KD 2,687 thousand).

33. IMPACT OF COVID-19

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

Covid-19 support measures

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

2021 consumer and other instalments loans deferral scheme

Kuwait banks announced postponement of payment of consumer and instalment loans to eligible customer, upon request, in accordance with the CBK circular No. 2/BS/IBS/IS/IIS/FS/476/2021 dated 18 April 2021 concerning the implementing provisions of Article No. (2) of Law No. (3) of 2021 ("the Law") regarding the deferral of the financial obligations for a six-month period with cancellation of interest and profits resulting from this deferral ("the 2021 scheme").The cost of the instalment deferrals are fully borne by the Government of Kuwait in accordance with the Law.

33. IMPACT OF COVID-19 (CONTINUED)

The Group implemented the 2021 scheme by postponing the instalments for a six-month period from the customer request date with the corresponding extension of the facility tenure. The instalment deferral resulted in a loss to the Group arising from the modification of contractual cash-flows amounting to **KD 51,574 thousand** in accordance with IFRS 9. The current period loss was offset by an equivalent amount receivable from Government of Kuwait as Government Grant in accordance with the Law. The Group has recorded the Government grant income by setting it off against the modification loss from the 2021 scheme. The Government grant receivable is included in other assets in the consolidated statement of financial position (Note 17).

Expected Credit Loss (ECL) estimates

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

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

Other impacts

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

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

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2020

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

CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

For the year ended 31 December 2020

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

Report on the Audit of the Consolidated Financial Statements

Opinion

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs), as adopted by the Central Bank of Kuwait for use by the State of Kuwait.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

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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)

Key Audit Matters (continued)

We have identified the following key audit matter:

Credit losses on Islamic financing to customers

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

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

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

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

Our audit procedures included assessing the design and implementation of controls over the inputs and assumptions used by the Group in developing the models, its governance and review controls performed by the management in determining the adequacy of credit losses. Further, our audit procedures were updated to incorporate consideration of the economic disruption caused by COVID-19, including a focus on rescheduled credit facilities.

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)

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

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

Other information included in the Annual Report of the Group for the year ended 31 December 2020
Management is responsible for the other information. Other information consists of the information included in Annual Report of the Group for the year ended 31 December 2020, other than the consolidated financial statements and our auditors' report thereon. We obtained the report of the Bank's Board of Directors, prior to the date of our auditor's report, and we expect to obtain the remaining sections of the Group's Annual Report for the year ended 31 December 2020 after the date of our auditor's report.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

We further report that, during the course of our audit, to the best of our knowledge and belief, we have not become aware of any violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organisation of banking business, and its related regulations during the year ended 31 December 2020 that might have had a material effect on the business of the Bank or on its financial position.

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

26 January 2021
Kuwait

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

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

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

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

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

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

Abdulaziz Abdullah Dakheel Al-Shaya
Chairman

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

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

	Share capital	Share premium	Treasury shares	Statutory reserve	Voluntary reserve	Other reserves (note 27)	Retained earnings	Equity attributable to equity holders of the Bank	Perpetual Tier 1 Sukuk	Non-controlling interests	Total equity
	KD'000s	KD'000s	KD'000s	KD'000s	KD'000s	KD'000s	KD'000s	KD'000s	KD'000s	KD'000s	KD'000s
Balance at 1 January 2020	**288,407**	**156,942**	**(54)**	**31,848**	**30,468**	**(8,354)**	**76,191**	**575,448**	**75,388**	**2,345**	**653,181**
Profit for the year	-	-	-	-	-	-	**34,421**	**34,421**	-	**(874)**	**33,547**
Other comprehensive (loss)/ income for the year	-	-	-	-	-	**(12,637)**	-	**(12,637)**	-	**1,702**	**(10,935)**
Total comprehensive (loss)/ income for the year	-	-	-	-	-	**(12,637)**	**34,421**	**21,784**	-	**828**	**22,612**
Acquisition of non-controlling interests	-	-	-	-	-	-	-	-	-	**30,581**	**30,581**
Modification loss of deferral of financing instalments * (note 2 and 35)	-	-	-	-	-	-	**(48,232)**	**(48,232)**	-	-	**(48,232)**
Dividends paid (note 24)	-	-	-	-	-	-	**(25,954)**	**(25,954)**	-	**(171)**	**(26,125)**
Profit paid on Perpetual Tier 1 Sukuk	-	-	-	-	-	-	**(5,186)**	**(5,186)**	-	-	**(5,186)**
Transfer of share based payment reserve	-	-	-	-	-	**(967)**	**967**	-	-	-	-
Other movement in non-controlling interests	-	-	-	-	-	-	-	-	-	**(101)**	**(101)**
Issue of bonus shares (note 24)	**14,420**	-	-	-	-	-	**(14,420)**	-	-	-	-
Transfer to reserves	-	-	-	**3,664**	-	-	**(3,664)**	-	-	-	-
Balance at 31 December 2020	**302,827**	**156,942**	**(54)**	**35,512**	**30,468**	**(21,958)**	**14,123**	**517,860**	**75,388**	**33,482**	**626,730**

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the year ended 31 December 2020

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

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

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

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

1. INCORPORATION AND ACTIVITIES

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

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

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

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

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

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

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

2. BASIS OF PREPARATION

2.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with the regulations for financial services institutions as issued by the Central Bank of Kuwait ("CBK") in the State of Kuwait. These regulations, including the CBK circulars recently issued on regulatory measures in response to COVID-19 and related CBK communications, require banks and other financial institutions regulated by CBK to adopt the International Financial Reporting Standards with the following amendments:

(a) Expected credit loss ("ECL") to be measured at the higher of ECL on credit facilities computed under IFRS 9 in accordance to the CBK guidelines or the provisions as required by CBK instructions along with its consequent impact on related disclosures; and

(b) Recognition of modification losses on financial assets arising from payment holidays to customers in response to Covid-19 to be recognised in retained earnings instead of consolidated statement of profit or loss as required by IFRS 9 (note 35).

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

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

2.2 Basis of measurement

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

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

2.3 Functional and presentation currency

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

2.4 Changes in accounting policies and disclosures

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

2. BASIS OF PREPARATION (CONTINUED)

2.4 Changes in accounting policies and disclosures (continued)

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

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

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

Amendments to IAS 1 and IAS 8: Definition of Material

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

Amendments to IFRS 3: Definition of a Business

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

Amendments to IFRS 16: Covid-19 Related Rent Concessions

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

Conceptual Framework for Financial Reporting issued on 29 March 2018

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

2.5 New standards and interpretations not yet adopted

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

Profit Rate Benchmark Reform (Phase 2)

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

2. BASIS OF PREPARATION (CONTINUED)

2.5 New standards and interpretations not yet adopted (continued)

Profit Rate Benchmark Reform (Phase 2) (continued)

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

Amendments to IFRS 9: Fees in the 10 percent test for derecognition of financial liabilities

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

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

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Basis of consolidation

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

3.1.1 Business combinations

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Basis of consolidation (continued)

3.1.1 Business combinations (continued)

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

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

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

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

3.1.2 Non-controlling interests

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

3.1.3 Subsidiaries

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

3.1.4 Loss of control

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Basis of consolidation (continued)

3.1.5 Investments in associates (equity-accounted investees)

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

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

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

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

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

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

3.1.6 Transactions eliminated on consolidation

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

3.2 Foreign currency

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

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

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

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

3.3 Revenue recognition

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Government grants

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

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

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

3.5 Financial instruments

3.5.1 Financial assets

a) Trade and settlement date accounting

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

b) Recognition and derecognition of financial assets

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (continued)

3.5.1 Financial assets (continued)

c) Classification and Measurement of Financial assets

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

Cash and cash equivalents

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

Deposits with Banks, Central Bank of Kuwait and Islamic financing to customers

Deposits with banks and Islamic financing to customers are financial assets with fixed or determinable payments that are not quoted in an active market.

Murabaha

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

Wakala

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

Leased assets - the Group as a lessor

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

Renegotiated finance facilities

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

Financial assets at FVTPL and FVOCI

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

Business model assessment

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (continued)

3.5.1 Financial assets (continued)

c) Classification and Measurement of Financial assets (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (continued)

3.5.1 Financial assets (continued)

c) Classification and Measurement of Financial assets (continued)

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

(ii) Equity investments at FVOCI

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

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

(iii) Financial assets measured at FVTPL:

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

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

Reclassification of financial assets

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

d) Impairment of financial assets

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

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

Equity investments are not subject to Expected Credit Losses.

Impairment of financing facilities

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (continued)

3.5.1 Financial assets (continued)

d) Impairment of financial assets (continued)

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

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (continued)

3.5.1 Financial assets (continued)

d) Impairment of financial assets (continued)

Expected Credit Losses (continued)

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (continued)

3.5.1 Financial assets (continued)

d) Impairment of financial assets (continued)

Expected Credit Losses (continued)

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

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

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

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

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

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

3.5.2 Financial liabilities

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

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

Due to banks and depositors' accounts

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

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

Saving Investment Accounts

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

Fixed-Term Deposit Investment Accounts

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

Open –Term Deposit Investment Accounts

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

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

Medium term financing

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (continued)

3.5.3 Offsetting

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

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

3.6 Fair values

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

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

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

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

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

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

3.7 Derivatives

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

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

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

3.8 Investment properties

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9 Property and equipment

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

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

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

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

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

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

3.10 Leases – Group as a lessee

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

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

a) Right-of-use assets

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

b) Lease liabilities

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

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

3.11 Impairment of non- financial assets

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.11 Impairment of non- financial assets (continued)

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

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

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

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

3.12 Provisions

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

3.13 Contingent liabilities and contingent assets

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

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

3.14 Share based payment

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

3.15 Segment reporting

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

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

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

3.16 Treasury shares

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.16 Treasury shares (continued)

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

3.17 Post-employment benefits

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

3.18 Kuwait Foundation for the Advancement of Sciences (KFAS)

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

3.19 National Labour Support Tax (NLST)

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

3.20 Zakat

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

3.21 Financial guarantees

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

3.22 Fiduciary assets

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

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

4.1 Critical judgments in applying the Group's accounting policies

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

Fair value hierarchy

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

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

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

Classification of financial assets

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

4.2 Key sources of estimation uncertainty

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

Expected Credit Losses on financial assets

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

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

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

Impairment losses on Islamic finance facilities

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

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

Valuation of unquoted equity investments

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

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

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

Fair values of asset and liabilities including intangibles

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

5. BUSINESS COMBINATION

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

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

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

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

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

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

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

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

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

6. MURABAHA AND OTHER ISLAMIC FINANCING INCOME

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

7. NET INVESTMENT INCOME

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

8. NET FEES AND COMMISSION INCOME

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

9. PROVISION FOR IMPAIRMENT

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

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

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

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

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

9. PROVISION FOR IMPAIRMENT (CONTINUED)

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

10. TAXATION

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

11. BASIC AND DILUTED EARNING PER SHARE

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

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

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

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

12. CASH AND CASH EQUIVALENTS

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

13. DEPOSITS WITH OTHER BANKS

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

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

14. ISLAMIC FINANCING TO CUSTOMERS

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

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

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

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

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

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

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

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

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

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

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

15. INVESTMENT SECURITIES

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

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

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

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

16. SUBSIDIARIES

16.1 Details of principal operating subsidiaries are as follows:

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

16.2 Material partly-owned subsidiary

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

Proportion of equity interest held by non-controlling interests:

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

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

16. SUBSIDIARIES (CONTINUED)

16.2 Material partly-owned subsidiary

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

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

Summarised consolidated statement of financial position as at:

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

Summarised consolidated statement of cash flows for year ended:

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

17. INVESTMENTS IN ASSOCIATES

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

18. INVESTMENT PROPERTIES

The movement in the investment properties is as follows:

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

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

19. OTHER ASSETS

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

20. MEDIUM TERM FINANCING

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

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

21. OTHER LIABILITIES

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

Post-Employment Benefit

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

22. SHARE CAPITAL

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

23. SHARE PREMIUM

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

24. DIVIDEND

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

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

25. TREASURY SHARES

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

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

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

26. STATUTORY RESERVE

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

27. OTHER RESERVES

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

27. OTHER RESERVES (CONTINUED)

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

Voluntary reserve

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

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

28. PERPETUAL TIER 1 SUKUK

During 2016, the Bank, issued "Tier 1 Sukuk", through a Sharia's compliant Sukuk arrangement amounting to USD 250 million. Tier 1 Sukuk is a perpetual security in respect of which there is no fixed redemption date and constitutes direct, unsecured, subordinated obligations (senior only to share capital) of the Bank subject to the terms and conditions of the Mudaraba Agreement. The Tier 1 Sukuk is listed on the Irish Stock Exchange and NASDAQ Dubai and callable by the Bank after five-year period ending May 2021 (the "First Call Date") or any profit payment date thereafter subject to certain redemption conditions.

The net proceeds of Tier 1 Sukuk are invested by way of Mudaraba with the Bank (as Mudareb) on an unrestricted co-mingling basis, by the Bank in its general business activities carried out through the general Mudaraba pool. Tier 1 Sukuk bears an expected profit rate of 6.75% per annum to be paid semi-annually in arrears until the First Call Date. After that, the expected profit rate will be reset based on then prevailing 5 years U.S Mid Swap Rate plus initial margin of 5.588% per annum. Mudaraba profit will not be accumulated and the event is not considered an event of default.

29. RELATED PARTY TRANSACTIONS

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

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

29. RELATED PARTY TRANSACTIONS (CONTINUED)

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

Compensation of key management personnel:
Details of compensation for key management comprise the following:

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

30. CONTINGENCIES AND COMMITMENTS

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

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

31. SEGMENT REPORTING

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

Business Segments

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

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

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

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

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

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

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

31. SEGMENT REPORTING (CONTINUED)

Geographical segment

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

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

32. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

32.1 Introduction and overview

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

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

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

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

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

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

32.2 Credit risk

32.2.1 Assessment of expected credit losses

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

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

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

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

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

32. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

32.2 Credit risk *(continued)*

32.2.1 Assessment of expected credit losses *(continued)*

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

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

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

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

The Group has also considered the potential impact of the uncertainties caused by the Covid-19 pandemic together with the associated economic support and relief measures of governments and central banks in its estimation of ECL requirements for the year ended 31 December 2020.

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

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

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

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

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

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

32. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

32.2 Credit risk (continued)

32.2.1 Assessment of expected credit losses (continued)

Incorporation of forward-looking information

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

Internal rating and PD estimation process

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

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

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

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

Exposure at default

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

32. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

32.2 Credit risk (continued)

32.2.1 Assessment of expected credit losses (continued)

Loss given default

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

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

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

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

Collateral and other credit enhancements

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

32.2.3 Risk Concentration of the maximum exposure to credit risk

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

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

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

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

32. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

32.2 **Credit risk (continued)**

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

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

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

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

32.2.4 Credit quality per class of financial assets

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

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

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

32. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

32.2 Credit risk (continued)

32.2.4 Credit quality per class of financial assets (continued)

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

Ageing analysis of past due or impaired financial assets:

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

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

32.3 Market risk

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

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

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

32. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

32.4 Foreign currency risk

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

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

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

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

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

Equity price risk

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

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

32.5 Liquidity risk

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

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

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

32. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

32.5 Liquidity risk (continued)

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

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

32. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

32.5 Liquidity risk (continued)

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

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

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

32.6 Profit Rate Risk

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

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

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

32.7 Operational risk

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

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

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

32. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

32.8 Fair value of financial instruments

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

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

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

Fair value hierarchy

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

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

	Level 1	**Level 2**	**Level 3**	**Total**
2020	**KD'000's**	**KD'000's**	**KD'000's**	**KD'000's**
Financial assets at fair value through profit or loss	**-**	**81,691**	**-**	**81,691**
Investment in Sukuk	**523,046**	**-**	**-**	**523,046**
Financial assets at fair value through other comprehensive income	**2,010**	**-**	**15,408**	**17,418**
	525,056	**81,691**	**15,408**	**622,155**
2019				
Financial assets at fair value through profit or loss	-	80,440	-	80,440
Investment in Sukuk	306,315	-	-	306,315
Financial assets at fair value through other comprehensive income	151	-	20,624	20,775
	306,466	80,440	20,624	407,530

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

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

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

32. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

32.8 Fair value of financial instruments (continued)

Fair value hierarchy (continued)

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

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

32.9 Capital management

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

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

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

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

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

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

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

33. DERIVATIVES

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

Currency swaps

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

Profit rate swaps

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

Forward foreign exchange contracts

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

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

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

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

34. FIDUCIARY ASSETS

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

35. IMPACT OF COVID-19

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

Covid-19 support measures

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

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

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

Deferral of instalments for Consumer and Housing finance, credit cards and facilities to SMEs

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

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

Expected Credit Loss (ECL) estimates

The Group considered the potential impact of the uncertainties caused by the Covid-19 pandemic together with the associated economic support and relief measures of governments and central banks in its estimation of ECL requirements for the year ended 31 December 2020.

Significant increase in credit risk

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

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

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

35. IMPACT OF COVID-19 (CONTINUED)

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

Notwithstanding the above, the ECL requirement for credit facilities estimated as at 31 December 2020 continues to be lower than the provisions required as per CBK instructions. In accordance with Group accounting policy, the higher amount, being the provision required as per CBK instructions, is therefore recognized as the provision requirement for credit losses on credit facilities.

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

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

بـنـك بـوبـيـان
Boubyan Bank

CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2019

INDEX

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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 2019, 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 2019, 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 *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International' *Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

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

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

Key Audit Matters (continued)

We have identified the following key audit matters:

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 3.4 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.

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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)

Key Audit Matters (continued)

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.

Other information included in the Group's 2019 Annual Report
Management is responsible for the other information. Other information consists of the information included in Group's 2019 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 2019 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.

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.

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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)

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

- 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 2019 that might have had a material effect on the business of the Bank or on its financial position.

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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 2019 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.

5 January 2020
Kuwait

	Notes	2019 KD '000s	2018 KD '000s
Income			
Murabaha and other Islamic financing income	5	**207,629**	182,942
Finance cost and distribution to depositors		**(88,170)**	(62,636)
Net financing income		**119,459**	120,306
Net investment income	6	**4,155**	1,051
Net fees and commission income	7	**16,428**	13,436
Share of results of associates	16	**2,040**	1,917
Net foreign exchange gain		**3,687**	3,011
Operating income		**145,769**	139,721
Staff costs		**(36,094)**	(33,633)
General and administrative expenses		**(17,078)**	(18,834)
Depreciation		**(7,892)**	(4,288)
Operating expenses		**(61,064)**	(56,755)
Operating profit before provision for impairment		**84,705**	82,966
Provision for impairment	8	**(18,711)**	(23,839)
Operating profit before taxation and board of directors' remuneration		**65,994**	59,127
Taxation	9	**(2,867)**	(2,557)
Board of directors' remuneration		**(450)**	(360)
Net profit for the year		**62,677**	56,210
Attributable to:			
Equity holders of the Bank		**62,647**	56,108
Non-controlling interests		**30**	102
Net profit for the year		**62,677**	56,210
Basic and diluted earnings per share attributable to the equity holders of the Bank (fils)	10	**20.40**	19.17

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

	2019	2018
	KD '000s	KD '000s
Net profit for the year	**62,677**	56,210
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	**6,303**	(454)
Foreign currency translation adjustments	**429**	(641)
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	**(9,675)**	(660)
Other comprehensive loss for the year	**(2,943)**	(1,755)
Total comprehensive income for the year	**59,734**	54,455
Attributable to:		
Equity holders of the Bank	**59,704**	54,353
Non-controlling interests	**30**	102
Total comprehensive income for the year	**59,734**	54,455

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	2019 KD '000s	2018 KD '000s
Assets			
Cash and balances with banks	11	**232,393**	83,805
Deposits with Central Bank of Kuwait		**306,156**	244,685
Deposits with other banks	12	**427,347**	237,088
Islamic financing to customers	13	**3,728,772**	3,262,285
Investment in Sukuk	14	**306,315**	309,339
Other investment securities	14	**101,215**	73,500
Investments in associates	16	**33,144**	28,916
Investment properties	17	**46,555**	24,036
Other assets	18	**32,422**	24,088
Property and equipment		**86,229**	57,036
Total assets		**5,300,548**	4,344,778
Liabilities and Equity			
Liabilities			
Due to banks		**236,480**	97,216
Depositors' accounts		**4,347,226**	3,720,935
Other liabilities	19	**63,661**	40,667
Total liabilities		**4,647,367**	3,858,818
Equity			
Share capital	20	**288,407**	238,847
Share premium	21	**156,942**	62,896
Proposed bonus shares	22	**14,420**	11,942
Treasury shares	23	**(54)**	(643)
Statutory reserve	24	**31,848**	25,251
Other reserves	25	**22,114**	19,165
Retained earnings		**35,817**	31,707
Proposed cash dividends	22	**25,954**	19,092
Equity attributable to equity holders of the Bank		**575,448**	408,257
Perpetual Tier 1 Sukuk	26	**75,388**	75,388
Non-controlling interests		**2,345**	2,315
Total equity		**653,181**	485,960
Total liabilities and equity		**5,300,548**	4,344,778

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.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	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 '000s	KD '000s	KD '000s	KD '000s	KD '000s	KD '000s	KD '000s	KD '000s	KD '000s	KD '000s	KD '000s	KD '000s
Balance at 1 January 2019	238,847	62,896	11,942	(643)	25,251	19,165	31,707	19,092	408,257	75,388	2,315	485,960
Profit for the year	-	-	-	-	-	-	62,647	-	62,647	-	30	62,677
Other comprehensive loss	-	-	-	-	-	(2,943)	-	-	(2,943)	-	-	(2,943)
Total comprehensive (loss) / income for the year	-	-	-	-	-	(2,943)	62,647	-	59,704	-	30	59,734
Increase in share capital (note 20)	37,618	94,046	-	-	-	-	-	-	131,664	-	-	131,664
Cost directly related to increase in Share capital	-	-	-	-	-	-	(108)	-	(108)	-	-	(108)
Transfer of gain on disposal of equity investments at FVOCI to retained earnings	-	-	-	-	-	(4)	4	-	-	-	-	-
Transfer to reserves	-	-	-	-	6,597	6,310	(12,907)	-	-	-	-	-
Issue of bonus shares (note 22)	11,942	-	(11,942)	-	-	-	-	-	-	-	-	-
Cash dividend paid (note 22)	-	-	-	-	-	-	(27)	(19,092)	(19,119)	-	-	(19,119)
Profit paid on Perpetual Tier 1 Sukuk	-	-	-	-	-	-	(5,125)	-	(5,125)	-	-	(5,125)
Proposed bonus shares (note 22)	-	-	14,420	-	-	-	(14,420)	-	-	-	-	-
Sales of treasury shares	-	-	-	589	-	(414)	-	-	175	-	-	175
Proposed cash dividends (note 22)	-	-	-	-	-	-	(25,954)	25,954	-	-	-	-
Balance at 31 December 2019	288,407	156,942	14,420	(54)	31,848	22,114	35,817	25,954	575,448	75,388	2,345	653,181

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	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 '000s	KD '000s	KD '000s	KD '000s	KD '000s	KD '000s	KD '000s	KD '000s	KD '000s	KD '000s	KD '000s	KD '000s
Balance at 1 January 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	-	-	-	-	-	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.

	Notes	2019 KD '000s	2018 KD '000s
OPERATING ACTIVITIES			
Net profit for the year		**62,677**	56,210
Adjustments for:			
Provision for impairment	8	**18,711**	23,839
Depreciation		**7,892**	4,288
Foreign currency translation adjustments		**11,997**	6,456
Unrealised gain from financial assets at fair value through profit or loss		**(1,128)**	(279)
Gain on deemed acquisition in an associate		**(982)**	-
Share of results of associates		**(2,040)**	(1,917)
Dividend income		**(2,405)**	(1,416)
Net unrealized loss from change in fair value of investment properties		**1,074**	1,500
Net gain on sale of investment properties		**(43)**	-
Net gain from sale of investment at fair value through profit or loss		**(85)**	-
Loss on derecognition of investment in associates		**-**	404
Share based payment reserve		**-**	48
Operating profit before changes in operating assets and liabilities		**95,668**	89,133
Changes in operating assets and liabilities:			
Deposits with Central Bank of Kuwait		**97,674**	65,735
Deposits with other banks		**(153,071)**	86,696
Islamic financing to customers		**(484,406)**	(400,346)
Other assets		**(8,334)**	(7,509)
Due to banks		**139,264**	29,742
Depositors' accounts		**626,291**	310,812
Other liabilities		**15,151**	10
Net cash generated from operating activities		**328,237**	174,273
INVESTING ACTIVITIES			
Purchase of investment securities		**(213,602)**	(241,219)
Proceeds from sale/redemption of investment securities		**174,085**	98,583
Dividends received from associates		**83**	202
Purchase of investment in associates		**-**	(36)
Proceeds from sale of investment properties		**3,702**	29,300
Purchase of investment properties		**(27,342)**	(1,296)
Purchase of property and equipment		**(30,085)**	(6,967)
Dividend income received		**2,405**	1,416
Net cash used in investing activities		**(90,754)**	(120,017)
FINANCING ACTIVITES			
Proceeds from increase in share capital		**131,664**	-
Cost directly related to increase in share capital		**(108)**	-
Profit distribution on perpetual Tier 1 Sukuk		**(5,125)**	(5,108)
Proceeds from exercise of share options		**175**	141
Dividends paid		**(19,119)**	(15,900)
Net cash generated from/(used in) financing activities		**107,487**	(20,867)
Net increase in cash and cash equivalents		**344,970**	33,389
Cash and cash equivalents at the beginning of the year		**164,767**	131,378
Cash and cash equivalents at the end of the year	11	**509,737**	164,767

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 published on April 18th 2004, in accordance with the rules and regulations of the Central Bank of Kuwait ("CBK"). The Bank's shares were listed on the Kuwait Stock Exchange on 15 May 2006.

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

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

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

The total number of employees in the Group was **1,728** employees as at 31 December 2019 (1,546 employees as at 31 December 2018).

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 5 January 2020 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 16 Leases, effective from 1 January 2019.

IFRS 16 'Leases'

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model.

Lessor accounting under IFRS 16 is substantially unchanged under IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

2. BASIS OF PREPARATION (CONTINUED)

2.4 Changes in accounting policies and disclosures (continued)

IFRS 16 'Leases' (continued)
Upon adoption of IFRS 16, the Group has recognised right-of-use assets representing the right to use the underlying assets under property and equipment and the corresponding lease liabilities to make lease payments under other liabilities.

a) Nature of the effect of adoption of IFRS 16
Before the adoption of IFRS 16, the Group classified its leases (as lessee) at the inception date as operating lease. In an operating lease, the leased property was not capitalised and the lease payments were recognised as rent expense in profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under other assets and other liabilities, respectively.

Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases that it is the lessee, except for short-term leases and leases of low-value assets. Refer to Note 3.9 Leases – Group as a lessee for the accounting policy beginning 1 January 2019.

Leases previously classified as finance leases
As at 1 January 2019, the Group did not have any lease classified as finance lease.

Leases previously accounted for as operating leases
The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised.

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.

Amendments to IFRS 3: *Definition of a Business*
In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 Business Combinations to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments.

Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to IAS 1 and IAS 8: *Definition of Material*
In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

The amendments to the definition of material is not expected to have a significant impact on the Group's consolidated financial statements.

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 2019 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.

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. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Basis of consolidation (continued)

3.1.5 Investments in associates (equity-accounted investees)

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

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

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

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

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

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

3.1.6 Transactions eliminated on consolidation

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

3.2 Foreign currency

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

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

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

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

3.3 Revenue recognition

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Financial instruments

3.4.1 Financial assets

a) Trade and settlement date accounting

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

b) Recognition and derecognition of financial assets

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

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

c) Classification and Measurement of Financial assets

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

Cash and cash equivalents

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

Deposits with Banks 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

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)

c) Classification and Measurement of Financial assets (continued)

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.

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Financial instruments (continued)

3.4.1 Financial assets (continued)

c) Classification and Measurement of Financial assets (continued)

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

(i) Debt Securities (Sukuk) at FVOCI

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

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

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

(ii) Equity investments at FVOCI

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

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

(iii) Financial assets measured at FVTPL:

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

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

Reclassification of financial assets

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Financial instruments (continued)

3.4.1 Financial assets (continued)

d) Impairment of financial assets

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

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

Equity investments are not subject to Expected Credit Losses.

Impairment of financing facilities

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

Impairment of financial assets other than financing 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.

Stage 3: Lifetime ECL – credit impaired

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

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

Determining the stage for impairment

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Financial instruments (continued)

3.4.1 Financial assets (continued)

d) Impairment of financial assets (continued)

Expected Credit Losses (continued)

Determining the stage for impairment (continued)

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

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

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

Measurement of ECLs

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

Incorporation of forward-looking information

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

Modification of Islamic financing to customers

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

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

Write off

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Financial instruments (continued)

3.4.1 Financial assets (continued)

d) Impairment of financial assets (continued)

Expected Credit Losses (continued)

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.

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

3.4.2 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.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Financial instruments (continued)

3.4.2 Financial liabilities (continued)

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.

3.4.3 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. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

3.8 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
• Buildings on leasehold land	20 years
• Buildings on freehold land	50 years

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

3.9 Leases – Group as a lessee

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

Policy applicable from 1 January 2019

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

a) Right-of-use assets

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

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

b) Lease liabilities

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9 Leases – Group as a lessee (continued)

Policy applicable from 1 January 2019 (continued)

b) Lease liabilities (continued)

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

Policy applicable before 1 January 2019

Operating lease payments are recognised as an expense in the consolidated statement of profit or loss on a straight-line basis over the lease term. Contingent rental payable is recognised as an expense in the period in which they are incurred.

3.10 Impairment of non- financial assets

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

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

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

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

3.11 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.

3.12 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.

3.13 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. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.14 Segment reporting

Operating segments are identified on the basis of internal reports that are regularly reviewed by the decision makers in order to allocate resources to the segments and to assess their performance. 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.

3.15 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.

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.

3.16 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.

3.17 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.

3.18 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.

3.19 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.

3.20 Financial guarantees

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

3.21 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 30.8, the Group is required to determine and disclose the level in the fair value hierarchy into which the fair value measurements are categorized in their entirety, segregating fair value measurements in accordance with the levels defined in IFRS. Differentiating between Level 2 and Level 3 fair value measurements, i.e., assessing whether inputs are observable and whether the unobservable inputs are significant, may require judgement and a careful analysis of the inputs used to measure fair value, including consideration of factors specific to the asset or liability.

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

The Group determines the classification of financial assets based on the assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and profit on the principal amount outstanding. Judgments are required in determining the business model at an appropriate level that best reflects an aggregated group or portfolio of assets which are managed together to achieve a particular business objective. The Group also applies judgment to assess if there is a change in business model in circumstances when the assets within that business model are realised differently than the original expectations. Refer to Note 3.4 classification of financial assets for more information.

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

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

The Group has the option, under some of its leases to lease the assets for additional terms. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

4.2 Key sources of estimation uncertainty

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

Expected Credit Losses on financial assets

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

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

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

Impairment losses on Islamic finance facilities

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

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

4.2 Key sources of estimation uncertainty (continued)

Impairment losses on Islamic finance facilities (continued)
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. MURABAHA AND OTHER ISLAMIC FINANCING INCOME

Islamic financing income includes financing income from Islamic financing to customers of **KD 195,238 thousand** (2018: KD 173,954 thousand) and income from Sukuks of **KD 12,391 thousand** (2018: KD 8,988 thousand).

6. NET INVESTMENT INCOME

	2019	2018
	KD '000s	KD '000s
Dividend income	**2,405**	1,416
Net rental income from investment properties	**417**	733
Net gain from financial assets at FVTPL	**1,213**	768
Net gain from sale of debt investments at FVOCI	**169**	38
Gain on deemed acquisition in an associate	**982**	-
Loss on derecognition of investment in associates	**-**	(404)
Unrealized loss from changes in fair value of investment properties	**(1,074)**	(1,500)
Net gain on sale of investment properties	**43**	-
	4,155	1,051

7. NET FEES AND COMMISSION INCOME

	2019	2018
	KD '000s	KD '000s
Gross fees and commission income	**24,625**	19,962
Fees and commission expenses	**(8,197)**	(6,526)
	16,428	13,436

8. PROVISION FOR IMPAIRMENT

	2019	2018
	KD '000s	KD '000s
Provision for impairment of Islamic financing to customers	**17,432**	15,053
ECL – Other financial assets	**716**	344
Impairment loss on investments in associates	**-**	8,442
Impairment loss on other assets	**563**	-
	18,711	23,839

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

	Specific	General	Total
	KD '000s	KD '000s	KD '000s
Balance at 1 January 2018	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
Provided during the year	**13,589**	**3,843**	**17,432**
Recovery of written off balances	**1,287**	**-**	**1,287**
Written off balances during the year	**(20,725)**	**-**	**(20,725)**
Balance at 31 December 2019	**12,476**	**56,735**	**69,211**

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 '000s	KD '000s	KD '000s
Balance at 1 January 2018	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
Provided during the year	**16,775**	**657**	**17,432**
Recovery of written off balances	**1,287**	**-**	**1,287**
Written off balances during the year	**(19,928)**	**(797)**	**(20,725)**
Balance at 31 December 2019	**66,621**	**2,590**	**69,211**

At 31 December 2019, non-performing finance facilities amounted to **KD 20,409 thousand**, net of provision of **KD 12,476 thousand** (2018: KD 9,983 thousand, net of provision of KD 18,325 thousand). The analysis of specific and general provision stated above is based on Central Bank of Kuwait's instructions.

9. TAXATION

	2019	2018
	KD '000s	KD '000s
Contribution to Kuwait Foundation for the Advancement of Sciences ("KFAS")	**591**	525
National Labour Support Tax ("NLST")	**1,630**	1,455
Zakat (Based on Zakat law no: 46/2006)	**646**	577
	2,867	2,557

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.

	2019	2018
Net profit for the year attributable to the equity holders of the Bank (KD '000s)	**62,647**	56,108
Less: profit payment on Perpetual Tier 1 Sukuk (KD '000s)	**(5,125)**	(5,108)
	57,522	51,000
Weighted average number of shares outstanding during the year (thousands of shares)	**2,819,723**	2,659,898
Basic and diluted earnings per share attributable to the equity holders of the Bank (fils)	**20.40**	19.17

Earnings per share for the year ended 2018 was 21.37 fils per share before retroactive adjustment to the number of shares following the bonus issue (see note 22).

11. CASH AND CASH EQUIVALENTS

	2019	2018
	KD '000s	KD '000s
Cash and balances with banks	**232,393**	83,805
Placement with banks maturing within seven days	**277,344**	80,962
	509,737	164,767

12. DEPOSITS WITH OTHER BANKS

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

	2019	2018
	KD '000s	KD '000s
Kuwait & Middle East	**361,931**	219,059
Europe	**65,516**	18,088
	427,447	237,147
Less: Expected credit losses (ECL)	**(100)**	(59)
	427,347	237,088

13. ISLAMIC FINANCING TO CUSTOMERS

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

	Kuwait & Middle East	**Africa**	**Asia**	**Total**
	KD '000s	**KD '000s**	**KD '000s**	**KD '000s**
2019				
Corporate banking	**2,137,575**	**7,654**	**-**	**2,145,229**
Consumer banking	**1,650,164**	**-**	**-**	**1,650,164**
	3,787,739	**7,654**	**-**	**3,795,393**
Less: provision for impairment	**(66,544)**	**(77)**	**-**	**(66,621)**
	3,721,195	**7,577**	**-**	**3,728,772**
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

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

	Specific		General		Total	
	2019	2018	**2019**	2018	**2019**	2018
	KD '000s	KD '000s	**KD '000s**	KD '000s	**KD '000s**	KD '000s
Balance at beginning of the year	**17,781**	7,715	**50,706**	50,586	**68,487**	58,301
Provided during the year	**13,007**	14,173	**3,768**	120	**16,775**	14,293
Recovery of written off balances	**1,287**	603	**-**	-	**1,287**	603
Written off balances during the year	**(19,928)**	(4,710)	**-**	-	**(19,928)**	(4,710)
Balance at end of the year	**12,147**	17,781	**54,474**	50,706	**66,621**	68,487

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

	Corporate banking		Consumer banking		Total	
	2019	2018	**2019**	2018	**2019**	2018
	KD '000s	KD '000s	**KD '000s**	KD '000s	**KD '000s**	KD '000s
Balance at beginning of the year	**7,576**	1,176	**10,205**	6,539	**17,781**	7,715
Provided during the year	**9,034**	10,861	**3,973**	3,312	**13,007**	14,173
Recovery of written off balances	**345**	237	**942**	366	**1,287**	603
Written off balances during the year	**(8,170)**	(4,698)	**(11,758)**	(12)	**(19,928)**	(4,710)
Balance at end of the year	**8,785**	7,576	**3,362**	10,205	**12,147**	17,781

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:

	2019	2018
	KD '000s	KD '000s
Islamic financing to customers	**32,885**	28,308
Specific provision for impairment	**(12,476)**	(18,325)
	20,409	9,983

At 31 December 2019, management estimates the fair value of collaterals held against individually impaired Islamic finance facilities to be **KD 24,544 thousand** (2018: KD 1,939 thousand).

The ECL for Islamic financing as at 31 December 2019 is **KD 53,981 thousand** (2018: KD 49,914 thousand) which is lower than the provision for impairment of Islamic finance to customers required by CBK.

14. INVESTMENT SECURITIES

	2019	2018
	KD '000s	KD '000s
Investment in Sukuk - FVOCI	**306,315**	309,339
Financial assets at fair value through profit or loss	**80,440**	42,760
Financial assets at fair value through other comprehensive income	**20,775**	30,740
	407,530	382,839

	2019	2018
	KD '000s	KD '000s
Financial assets at fair value through profit or loss		
Investment in unquoted equity funds	**80,440**	42,760
	80,440	42,760

	2019	2018
	KD '000s	KD '000s
Financial assets at fair value through other comprehensive income		
Investment in unquoted equity securities	**20,624**	30,574
Investment in quoted equity securities	**151**	166
	20,775	30,740

15. SUBSIDIARIES

Principal operating subsidiaries are as follows:

Name of subsidiary	Country of incorporation	Principal activity	**2019**	2018
			% Effective ownership	
Boubyan Takaful Insurance Company K.S.C. (Closed)	Kuwait	Takaful insurance	**79.49**	79.49
Boubyan Capital Investment Company K.S.C. (Closed)	Kuwait	Islamic investments	**99.95**	99.76

16. INVESTMENTS IN ASSOCIATES

Name of associate	Country of incorporation	Principal activity	2019	2018
			% Effective ownership	
Bank of London and the Middle East ("BLME")	United Kingdom	Islamic Banking	**27.91**	26.44
United Capital Bank	Republic of Sudan	Islamic Banking	**21.67**	21.67
Saudi Projects Holding Group	Kuwait	Real Estate	**25.02**	25.02

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

	2019 KD '000s	2018 KD '000s
Total assets	**557,493**	428,435
Total liabilities	**(461,166)**	(335,906)
Net assets	**96,327**	92,529
Group's share of net assets	**26,889**	24,465

	2019 KD '000s	2018 KD '000s
Total revenue	**18,881**	11,375
Net profit	**3,850**	4,111
Group's share of results	**973**	1,250

17. INVESTMENT PROPERTIES

The movement in the investment properties is as follows:

	2019 KD '000s	2018 KD '000s
Balance at the beginning of the year	**24,036**	53,572
Additions during the year	**27,342**	1,437
Disposals during the year	**(3,659)**	(29,300)
Net unrealized loss from change in fair value of investment properties	**(1,074)**	(1,500)
Foreign currency translation adjustments	**(90)**	(173)
Balance at the ending of the year	**46,555**	24,036

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 2019.

18. OTHER ASSETS

	2019 KD '000s	2018 KD '000s
Accrued income	**3,096**	3,768
Prepayments	**3,196**	5,708
Others	**26,130**	14,612
	32,422	24,088

19. OTHER LIABILITIES

	2019 KD '000s	2018 KD '000s
Creditors and accruals	**13,679**	11,568
Accrued staff benefits	**9,141**	8,225
Post Employment Benefit	**8,970**	7,802
General provision on non-cash facilities	**2,590**	2,730
Others	**29,281**	10,342
	63,661	40,667

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

	2019		2018	
	Shares	**KD '000s**	Shares	KD '000s
Shares authorised, issued and paid up of 100 fils each comprised of 2,764,655,880 shares (2018: 2,274,734,860 shares) fully paid in cash and 119,423,580 shares (2018: 113,736,743 shares) issued as bonus shares during the year.	**2,884,079,460**	**288,407**	2,388,471,603	238,847

During the year, after obtaining necessary approvals, the Bank increased its share capital through the rights issue of **376,184,277** shares, each with a nominal value of 100 fils and premium of 250 fils. The rights issue has been fully subscribed resulting in an increase in share capital of **KD 37,618** thousand and share premium of **KD 94,046** thousand.

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. DIVIDEND

The Annual General Assembly meeting of the shareholders held on 10 March 2019 approved 5% bonus shares (2017: 5%) and a cash dividend of 8 fils per share (2017: 7 fils per share) for the year ended 31 December 2018. The bonus shares increased the number of issued and fully paid up shares by 119,423,580 shares (2017: 113,736,743 shares) and increase in share capital by KD 11,942 thousand (2017: KD 11,374 thousand).

The board of directors recommended distribution of cash dividends of **9 fils** per share (2018: 8 fils) and bonus shares of **5%** (2018: 5%) for the year ended 31 December 2019. 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:

	2019	2018
Number of treasury shares	**331,112**	2,027,659
Treasury shares as a percentage of total issued shares - %	**0.01148%**	0.0849%
Cost of treasury shares (KD '000s)	**54**	643
Market value of treasury shares (KD '000s)	**212**	1,135
Weighted average of market value per share (fils)	**0.578**	0.508

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, a minimum of 10% profit for the year attributable to the shareholders of the Bank before KFAS, NLST, Zakat and Board of directors' remuneration is transferred to statutory reserve based on the recommendation of the Banks's Board of Directors. The Bank may resolve to discontinue such annual transfers when the reserve equals 50% of the capital. This reserve is not available for distribution except in cases stipulated by law and the Bank's Articles of Association.

25. OTHER RESERVES

	Voluntary reserve	**Share based payment reserve**	**Fair value reserve**	**Foreign currency translation reserve**	**Total**
	KD '000s	**KD '000s**	**KD '000s**	**KD '000s**	**KD '000s**
Balance at 1 January 2019	**24,158**	**1,381**	**3,543**	**(9,917)**	**19,165**
Other comprehensive loss	**-**	**-**	**(3,372)**	**429**	**(2,943)**
Total comprehensive loss for the year	**-**	**-**	**(3,372)**	**429**	**(2,943)**
Transfer of gain on disposal of equity investments at FVOCI to retained earnings	**-**	**-**	**(4)**	**-**	**(4)**
Transfer to reserves	**6,310**	**-**	**-**	**-**	**6,310**
Sales of treasury shares	**-**	**(414)**	**-**	**-**	**(414)**
Balance at 31 December 2019	**30,468**	**967**	**167**	**(9,488)**	**22,114**

	Voluntary reserve	Share based payment reserve	Fair value reserve	Foreign currency translation reserve	Total
	KD '000s	KD '000s	KD '000s	KD '000s	KD '000s
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	-	-	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

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

Voluntary reserve is available to be distributed to shareholders at the discretion of the general assembly in ways that may be deemed beneficial to the Bank, except for the amount equivalent to the cost of purchase of the treasury shares (Note 23).

25. OTHER RESERVES (CONTINUED)

Share based payment reserve
The Bank currently does not operate an equity settled share based compensation plan.

No options were granted during the year. In 2018, the weighted average remaining life of the share options was **360 days** and the weighted average fair value of share options granted was **348 fils**.

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

	2019 Number of share options	2018 Number of share options
Outstanding at 1 January	**1,758,501**	3,341,369
Granted during the year	**-**	-
Cancelled during the year	**(14,084)**	(164,092)
Exercised during the year	**(1,744,417)**	(1,418,776)
Outstanding at 31 December	**-**	1,758,501

The expense accrued on account of share based compensation plans for the year amounts to **KD Nil** (2018: KD 48 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 **1,744 thousand shares** (2018: 1,419 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			
	2019	2018	**2019**	2018	**2019**	2018
					KD '000s	KD '000s
Islamic financing to customers	**7**	7	**1**	2	**14,469**	5,157
Depositors' accounts	**5**	5	**12**	9	**3,801**	3,028
Murabaha and other Islamic financing income					**459**	231
Finance cost and distribution to depositors					**(98)**	(87)
Parent Company						
Due from banks					**181,080**	43,139
Due to banks					**5,735**	59,140
Murabaha and other Islamic financing income					**1,405**	1,617
Finance cost and distribution to depositors					**(1,170)**	(664)

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 5,500 thousand** as at 31 December 2019 (2018: KD 21,649 thousand).

Compensation of key management personnel:

Details of compensation for key management comprise the following:

	2019	2018
	KD '000s	KD '000s
Short-term benefits	**2,198**	2,061
Post-employment benefits	**413**	364
Share based compensation	**611**	580
	3,222	3,005

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:

	2019	2018
	KD '000s	KD '000s
Guarantees	**271,839**	264,940
Acceptances and letters of credit	**90,184**	91,632
Other commitments	**2,032**	9,278
	364,055	365,850

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**
2019	**KD '000s**	**KD '000s**	**KD '000s**	**KD '000s**	**KD '000s**	**KD '000s**
Net financing income/(loss)	**67,590**	**35,542**	**(3,543)**	**5,859**	**14,011**	**119,459**
Share of results of associates	**-**	**-**	**2,040**	**-**	**-**	**2,040**
Operating income	**74,551**	**43,929**	**9,609**	**9,533**	**8,147**	**145,769**
Depreciation	**(4,999)**	**(282)**	**(85)**	**(42)**	**(2,484)**	**(7,892)**
Net profit/(loss) for the year	**36,261**	**28,080**	**5,059**	**8,943**	**(15,666)**	**62,677**
Total assets	**1,652,215**	**2,562,670**	**217,281**	**825,652**	**42,730**	**5,300,548**
Total liabilities	**2,337,346**	**364,021**	**62,495**	**1,873,566**	**9,939**	**4,647,367**
2018						
Net financing income	64,924	36,858	(2,896)	11,350	10,070	120,306
Share of results of associates	-	-	1,917	-	-	1,917
Operating income/(loss)	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

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 '000s	**KD '000s**	**KD '000s**	**KD '000s**	**KD '000s**
2019					
Assets	**5,117,953**	**19,342**	**130,057**	**33,196**	**5,300,548**
Non-current assets (excluding financial instruments)	**138,367**	**26,208**	**4,180**	**29,595**	**198,350**
Liabilities and equity	**5,299,350**	**-**	**1,188**	**10**	**5,300,548**
Segment income	**141,299**	**209**	**4,257**	**4**	**145,769**
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

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 market and profit rate risk. Collateral is used to reduce the Group's credit risk.

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

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.

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:

	2019		2018	
	Gross exposure KD'000's	**Net exposure KD'000's**	Gross exposure KD'000's	Net exposure KD'000's
Islamic financing to customers	**3,728,772**	**2,507,345**	3,262,285	2,153,771
Contingent liabilities and capital commitments	**364,055**	**354,138**	365,850	353,931

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 2019 are **24.19%** (2018: 23.40%).

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**
2019					
Balances with banks	**168,932**	**22,123**	**2,218**	**181**	**193,454**
Deposits with Central Bank of Kuwait	**306,156**	**-**	**-**	**-**	**306,156**
Deposits with other banks	**361,831**	**-**	**65,516**	**-**	**427,347**
Islamic financing to customers	**3,728,772**	**-**	**-**	**-**	**3,728,772**
Investment in Sukuk	**280,386**	**-**	**-**	**25,929**	**306,315**
Other assets (excluding accrued income and prepayments)	**26,130**	**-**	**-**	**-**	**26,130**
	4,872,207	**22,123**	**67,734**	**26,110**	**4,988,174**
Contingent liabilities	**356,089**	**-**	**1,090**	**4,844**	**362,023**
Commitments	**2,032**	**-**	**-**	**-**	**2,032**
Total credit risk exposure	**5,230,328**	**22,123**	**68,824**	**30,954**	**5,352,229**

	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

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:

	2019	2018
	KD'000's	KD'000's
Trading	**113,502**	115,257
Manufacturing	**210,831**	166,755
Banking and other financial institutions	**699,339**	519,717
Construction	**66,439**	62,856
Real Estate	**1,011,541**	899,883
Retail	**1,565,183**	1,423,554
Government	**615,021**	397,644
Others	**706,318**	532,610
	4,988,174	4,118,276

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			
	High	**Standard**	**Past due or impaired**	**Total**
	KD'000's	**KD'000's**	**KD'000's**	**KD'000's**
2019				
Balances with banks	**193,454**	**-**	**-**	**193,454**
Deposits with Central Bank of Kuwait	**306,156**	**-**	**-**	**306,156**
Deposits with other banks	**427,347**	**-**	**-**	**427,347**
Islamic financing to customers	**3,457,093**	**263,911**	**74,389**	**3,795,393**
Investment in Sukuk	**306,315**	**-**	**-**	**306,315**
Other assets (excluding accrued income and prepayment)	**26,130**	**-**	**-**	**26,130**
	4,716,495	**263,911**	**74,389**	**5,054,795**

	Neither past due nor impaired			
	High	Standard	Past due or impaired	Total
	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

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 KD'000's	Past due and impaired KD'000's	Past due and not impaired KD'000's	Past due and impaired KD'000's	Past due and not impaired KD'000's	Past due and impaired KD'000's
2019						
Up to 30 days	**6,039**	**22,809**	**14,230**	**13**	**20,269**	**22,822**
31 – 60 days	**9,621**	**-**	**4,738**	**-**	**14,359**	**-**
61 – 90 days	**3,455**	**-**	**3,420**	**2**	**6,875**	**2**
91 – 180 days	**-**	**1**	**-**	**5,378**	**-**	**5,379**
More than 180 days	**-**	**868**	**-**	**3,815**	**-**	**4,683**
	19,115	**23,678**	**22,388**	**9,208**	**41,503**	**32,886**
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	-	4,680	-	8,153
More than 180 days	-	4,516	-	10,390	-	14,906
	16,358	13,180	24,665	15,128	41,023	28,308

At 31 December 2019 management estimates the fair value of collaterals held against individually past due or impaired Islamic finance facilities to KD **32,417 thousand** (2018: KD 6,819 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 securities, all of which are exposed to general and specific market movements and changes in the level of volatility of prices and interest rates.

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

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

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.

		2019		2018	
		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	**2,499**	**-**	2,347	-
Sterling Pound	+5	**(150)**	**-**	(68)	-
Euro	+5	**20**	**-**	-	-
Indonesian Rupiah	+5	**-**	**265**	-	755
Sudanese Pound	+5	**16**	**91**	10	38
Japanese Yen	+5	**3**	**-**	2	-
Others	+5	**(2)**	**-**	19	-

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

Equity price risk

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

For such investments classified as FVOCI, a five percent increase in stock prices as at 31 December 2019 would have increased equity by **KD 1,039 thousand** (2018: an increase of KD 1,537 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	**3 to 6 months**	**6 to one year**	**Over 1 year**	**Total**
	KD'000's	**KD'000's**	**KD'000's**	**KD'000's**	**KD'000's**
2019					
Assets					
Cash and balances with banks	**232,393**	**-**	**-**	**-**	**232,393**
Deposits with Central Bank of Kuwait	**226,726**	**63,293**	**16,137**	**-**	**306,156**
Deposits with Banks	**322,267**	**48,510**	**56,570**	**-**	**427,347**
Islamic financing to customers	**1,003,559**	**826,597**	**241,104**	**1,657,512**	**3,728,772**
Investment in sukuk	**250,630**	**-**	**-**	**55,685**	**306,315**
Other investment securities	**-**	**-**	**-**	**101,215**	**101,215**
Investments in associates	**-**	**-**	**-**	**33,144**	**33,144**
Investment properties	**-**	**-**	**-**	**46,555**	**46,555**
Other assets	**26,131**	**-**	**6,291**	**-**	**32,422**
Property and equipment	**-**	**-**	**-**	**86,229**	**86,229**
Total assets	**2,061,706**	**938,400**	**320,102**	**1,980,340**	**5,300,548**
Liabilities and Equity					
Due to banks	**219,372**	**7,078**	**10,030**	**-**	**236,480**
Depositors' accounts	**3,135,604**	**542,904**	**518,387**	**150,331**	**4,347,226**
Other liabilities	**29,281**	**-**	**13,679**	**20,701**	**63,661**
Equity	**-**	**-**	**-**	**653,181**	**653,181**
Total liabilities and equity	**3,384,257**	**549,982**	**542,096**	**824,213**	**5,300,548**

	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					
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

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 KD'000's	**3 to 6 months KD'000's**	**6 to one year KD'000's**	**Over 1 year KD'000's**	**Total KD'000's**
2019					
Financial liabilities					
Due to banks	**219,572**	**7,124**	**10,225**	**-**	**236,921**
Depositors' accounts	**3,141,215**	**549,621**	**531,221**	**168,612**	**4,390,669**
	3,360,787	**556,745**	**541,446**	**168,612**	**4,627,590**
Contingent liabilities and capital commitments					
Contingent liabilities	**130,862**	**47,481**	**88,304**	**95,376**	**362,023**
Capital commitments	**-**	**-**	**2,032**	**-**	**2,032**
	130,862	**47,481**	**90,336**	**95,376**	**364,055**

	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					
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

30.6 Profit Rate Risk

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

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

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

30.7 Operational risk

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

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

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

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.8 Fair value of financial instruments

Fair values are obtained from quoted market prices, discounted cash flow models and other models as appropriate. The carrying values of financial instruments are approximate to their fair values as at 31 December 2019 due to relatively short-term maturity of the instruments.

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

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

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

	Level 1	Level 2	Level 3	Total
2019	**KD'000's**	**KD'000's**	**KD'000's**	**KD'000's**
Financial assets at fair value through profit or loss	**-**	**38,578**	**41,862**	**80,440**
Investment in Sukuk – FVOCI	**306,315**	**-**	**-**	**306,315**
Financial assets at fair value through other comprehensive income	**151**	**-**	**20,624**	**20,775**
	306,466	**38,578**	**62,486**	**407,530**
2018				
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

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

	At 1 January 2019	Change in fair value	Additions/ transfers	Sale/ redemption	Exchange rate movements	At 31 December 2019
	KD'000's	**KD'000's**	**KD'000's**	**KD'000's**	**KD'000's**	**KD'000's**
31 December 2019:						
Assets measured at fair value						
Financial assets at fair value through profit or loss	**-**	**171**	**77,110**	**(35,152)**	**(267)**	**41,862**
Financial assets at fair value through other comprehensive income	**30,574**	**(10,320)**	**-**	**(124)**	**494**	**20,624**
	30,574	**(10,149)**	**77,110**	**(35,276)**	**227**	**62,486**

	At 1 January 2018	Change in fair value	Additions/ transfers	Sale/ redemption	Exchange rate movements	At 31 December 2018
	KD'000's	KD'000's	KD'000's	KD'000's	KD'000's	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

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.8 Fair value of financial instruments (continued)

Fair value hierarchy (continued)

The significant unobservable inputs used in the fair value measurement categorised within Level 3 of the fair value hierarchy together with a quantitative sensitivity analysis as at 31 December 2019 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.

30.9 Capital management

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

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

The Group's regulatory capital and capital adequacy ratios for the years ended 31 December 2019 and 31 December 2018 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:

	2019	2018
	KD'000's	KD'000's
Risk weighted assets	**3,246,032**	2,704,257
Capital required	**421,984**	365,075
Capital available		
Common Equity Tier 1 Capital	**546,790**	385,348
Additional Tier 1 Capital	**75,616**	75,658
Tier 1 Capital	**622,406**	461,006
Tier 2 Capital	**37,288**	30,871
Total Capital	**659,694**	491,877
Common Equity Tier 1 Capital Adequacy Ratio	**16.84%**	14.25%
Tier 1 Capital Adequacy Ratio	**19.17%**	17.05%
Total Capital Adequacy Ratio	**20.32%**	18.19%

The Group's financial leverage ratio for the year ended 31 December 2019 is calculated in accordance with Central Bank of Kuwait circular number 2/RBA/ 343/2014 dated 21 October 2014 and is shown below:

	2019	2018
	KD'000's	KD'000's
Tier 1 Capital	**622,406**	461,006
Total Exposures	**5,575,567**	4,606,606
Financial Leverage Ratio	**11.16%**	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 2019 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 contracts

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

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

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

	2019			2018		
	Positive fair value	**Negative fair value**	**Notional**	Positive fair value	Negative fair value	Notional
	KD '000s	**KD '000s**	**KD '000s**	KD '000s	KD '000s	KD '000s
Profit rate swaps (held as fair value hedges)	**324**	**(12,284)**	**290,235**	3,288	(219)	203,116
Cross currency swaps	**6,220**	**(166)**	**269,399**	-	-	60,800
	6,544	**(12,450)**	**559,634**	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 348,614 thousand** (2018: KD 237,480 thousand) and the related income from these assets amounted to **KD 2,416 thousand** (2018: KD 1,445 thousand).