## IMPORTANT NOTICE

**THE ATTACHED PROSPECTUS (THE "PROSPECTUS") MAY ONLY BE DISTRIBUTED TO PERSONS WHO ARE NOT U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT (AS DEFINED BELOW)) AND ARE OUTSIDE THE UNITED STATES.**

**IMPORTANT**: **You must read the following notice before continuing**. The following notice applies to the attached Prospectus, whether received by e-mail, accessed from an internet page or otherwise received as a result of electronic communication, and you are therefore advised to read this notice carefully before reading, accessing or making any other use of this Prospectus. In reading, accessing or making any other use of this Prospectus, you agree to be bound by the following terms and conditions and each of the restrictions set out in this Prospectus, including any modifications made to them from time to time, each time you receive any information from Boubyan Tier 1 Sukuk Limited (the "**Trustee**"), Boubyan Bank K.S.C.P. (the "**Bank**") or the Joint Lead Managers (as defined below) as a result of such access. You acknowledge that this electronic transmission and the delivery of the Prospectus is confidential and intended only for you and you agree you will not reproduce or publish this electronic transmission or forward the Prospectus to any other person.

**NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE OR SOLICITATION OF AN OFFER TO BUY IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. RECIPIENTS OF THIS PROSPECTUS ARE REMINDED THAT ANY PURCHASE MAY ONLY BE MADE ON THE BASIS OF THE INFORMATION CONTAINED IN THIS PROSPECTUS. THE CERTIFICATES DESCRIBED IN THIS PROSPECTUS HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT ("REGULATION S")) TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.**

**THIS PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON WITHOUT THE PRIOR WRITTEN CONSENT OF THE JOINT LEAD MANAGERS (AS DEFINED BELOW) AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS PROSPECTUS IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE SECURITIES DESCRIBED THEREIN.**

The distribution in the United Kingdom (the "**UK**") of this Prospectus and any other marketing materials relating to the Certificates is being addressed to, or directed at: (A) if the distribution of the Certificates is being effected by a person who is not an authorised person under the Financial Services and Markets Act 2000, as amended (the "**FSMA**"), only the following persons: (i) persons who are Investment Professionals as defined in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "**Financial Promotion Order**"); (ii) persons falling within any of the categories of persons described in Article 49(2) (High net worth companies, unincorporated associations, etc.) of the Financial Promotion Order; and (iii) any other person to whom it may otherwise lawfully be made in accordance with the Financial Promotion Order; and (B) if the distribution is effected by a person who is an authorised person under the FSMA, only the following persons: (i) persons falling within one of the categories of Investment Professional as defined in Article 14(5) of the Financial Services and Markets Act 2000 (Promotion of Collective Investment Schemes) (Exemptions) Order 2001 (the "**Promotion of CISs Order**"); (ii) persons falling within any of the categories of person described in Article 22 (High net worth companies, unincorporated associations, etc.) of the Promotion of CISs Order; and (iii) any other person to whom it may otherwise lawfully be made in accordance with the Promotion of CISs Order (all such persons together being referred to as "**Relevant Persons**"). Persons of any other description in the UK may not receive and should not act or rely on this Prospectus or any other marketing materials in relation to the Certificates.

Potential investors in the UK in the Certificates are advised that all, or most, of the protections afforded by the UK regulatory system will not apply to an investment in the Certificates and that compensation will not be available under the UK Financial Services Compensation Scheme.

Any individual intending to invest in the Certificates should consult his professional adviser and ensure that he fully understands all the risks associated with making such an investment and that he has sufficient financial resources to sustain any loss that may arise from such investment.

**CONFIRMATION OF YOUR REPRESENTATION**: By accepting this e-mail and accessing, reading or making any other use of this Prospectus, you shall be deemed to have represented to each of Abu Dhabi Islamic Bank PJSC, Boubyan Capital Investment Company K.S.C., Citigroup Global Markets Limited, Emirates NBD Bank P.J.S.C., Kamco Investment Company K.S.C.P., KFH Capital Investment Company K.S.C.C., Kuwait International Bank K.S.C.P., Standard Chartered Bank and Watani Investment Company K.S.C.C. (known as NBK Capital) (the "**Joint Lead Managers**") that: (i) you understand and agree to the terms set out herein; (ii) you are a Relevant Person; (iii) you are not a U.S. person (within the meaning of Regulation S), or acting for the account or benefit of a U.S. person, and, to the extent that you purchase the Certificates described herein, you will be doing so pursuant to Regulation S, and that the electronic mail address that you have given is not located in the United States (including the State and District of Columbia), its territories and possessions (including Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands); (iv) you are a person who is permitted under applicable law and regulation to receive this Prospectus; (v) you consent to delivery of such Prospectus and any supplements thereto by electronic transmission; (vi) you will not transmit this Prospectus (or any copy of it or part thereof) or disclose, whether orally or in writing, any of its contents to any other person; (vii) if you are a person in Hong Kong, you are a "professional investor" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "**SFO**") and any rules made under the SFO and (viii) you acknowledge that you will make your own assessment regarding any credit, investment, legal, Shariah, taxation or other economic considerations with respect to your decision to subscribe or purchase any of the Certificates.

You are reminded that this Prospectus has been delivered to you on the basis that you are a person into whose possession this Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver or disclose the contents of this Prospectus, electronically or otherwise, to any other person and in particular to any U.S. address. Failure to comply with this directive may result in a violation of the Securities Act or the applicable laws of other jurisdictions.

This Prospectus does not constitute, and may not be used in connection with, an offer to sell or solicitation to buy in any place where such offers or solicitations are not permitted by law. If a jurisdiction requires that an offering of the Certificates described herein be made by a licensed broker or dealer and the Joint Lead Managers or any affiliate of the Joint Lead Managers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by such Joint Lead Manager or such affiliate on behalf of the Bank, the Trustee or holders of the applicable Certificates in such jurisdiction.

Neither the Joint Lead Managers nor any of their respective affiliates accepts any responsibility whatsoever for the contents of the Prospectus or for any statement made or purported to be made by any of them, or on any of their behalf, in connection with the Trustee, the Bank or the offer of the Certificates. The Joint Lead Managers and their respective affiliates accordingly disclaim all and any liability whether arising in tort, contract, or otherwise which they might otherwise have in respect of such document or any such statement. No representation or warranty, express or implied, is made by any of the Joint Lead Managers or their respective affiliates as to the accuracy, completeness, verification or sufficiency of the information set out in the Prospectus and none of the Joint Lead Managers or their respective affiliates accepts any responsibility for any acts or omissions of the Trustee, the Bank or any other person in connection with the Prospectus or issue and offering of the Certificates.

This Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Joint Lead Managers, the Trustee, the Bank nor any person who controls or is a director, officer, employee or agent of any Joint Lead Manager, the Trustee, the Bank nor any affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between this Prospectus distributed to you in electronic format and the hard copy version available to you on request from the Bank, the Trustee or the Joint Lead Managers. If you received this Prospectus by e-mail, you should not reply by e-mail to this announcement. Any reply e-mail communications, including those you generate by using the "Reply" function on your e-mail software, will be ignored or rejected. If you receive this Prospectus by e-mail, your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

**Notification under Section 309(B) of the Securities and Futures Act (Chapter 289) of Singapore (the "SFA") -** the Trustee has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Certificates are prescribed capital markets products (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

**UK MIFIR product governance / professional investors and ECPs only target market:** Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Certificates has led to the conclusion that: (i) the target market for the Certificates is only eligible counterparties, as defined in the FCA Handbook Conduct of Business Sourcebook, and professional clients, as defined in Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the "**EUWA**"); and (ii) all channels for distribution of the Certificates to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Certificates (a "**distributor**") should take into consideration the manufacturers' target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook is responsible for undertaking its own target market assessment in respect of the Certificates (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

**PRIIPS regulation / prohibition of sales to EEA retail investors:** The Certificates are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (the "**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU of the European Parliament and of the Council on markets in financial instruments, as amended ("**MiFID II**"); or (ii) a customer within the meaning of Directive (EU) 2016/97 (the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

Consequently, no key information document required by Regulation (EU) No 1286/2014 (the "**PRIIPs Regulation**") for offering or selling the Certificates or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Certificates or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

**UK PRIIPs regulation / prohibition of sales to UK retail investors**: The Certificates are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the UK. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the EUWA; or (ii) a customer within the meaning of the provisions of the FSMA, and any rules or regulations made under the FSMA to implement the Insurance Distribution Directive, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA.

Consequently no key information document required by the PRIIPs Regulation as it forms part of domestic law by virtue of the EUWA (the "**UK PRIIPs Regulation**") for offering or selling the Certificates or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Certificates or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

**The distribution of this Prospectus and the offering, sale and delivery of the Certificates in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Joint Lead Managers, the Trustee and the Bank to inform themselves about, and to observe, any such restrictions**.

# BOUBYAN TIER 1 SUKUK LIMITED

*(incorporated as an exempted company with limited liability in the Cayman Islands)*

# U.S.$500,000,000 Tier 1 Capital Certificates

The U.S.$500,000,000 Tier 1 Capital Certificates (the "**Certificates**") of Boubyan Tier 1 Sukuk Limited (in its capacity as issuer and in its capacity as trustee, as applicable, the "**Trustee**") will be constituted by a declaration of trust (the "**Declaration of Trust**") dated 1 April 2021 (the "**Issue Date**") entered into between the Trustee, Boubyan Bank K.S.C.P. (the "**Bank**") and Citibank, N.A., London Branch as the delegate of the Trustee (the "**Delegate**"). The Certificates confer on the holders of the Certificates from time to time (the "**Certificateholders**") the conditional right to receive certain payments (as more particularly described herein) arising from an undivided ownership interest in the assets of a trust declared by the Trustee pursuant to the Declaration of Trust (the "**Trust**") over the Trust Assets (as defined herein) and the Trustee will hold such Trust Assets upon trust absolutely for the Certificateholders *pro rata* according to the face amount of Certificates held by each Certificateholder in accordance with the Declaration of Trust and the terms and conditions of the Certificates (the "**Conditions**").

If a Non-Viability Event (as defined herein) occurs, a Write-down (as defined herein) shall occur on the relevant Non-Viability Event Write-down Date (as defined herein), as more particularly described in Condition 11 (*Write-down at the Point of Non-Viability*). In such circumstances, the Certificates shall be cancelled (in the case of a Write-down in whole) or written-down in part on a *pro rata* basis (in the case of a Write-down in part) by the Trustee in accordance with the prevailing Capital Regulations (as defined herein) and the Certificateholders' rights to the Trust Assets (including the Mudaraba Assets) shall automatically be deemed to be irrevocably and unconditionally cancelled or written-down in the same manner as the Certificates. See "*Risk Factors – Certificateholders' right to receive payment of the face amount of the Certificates and the Certificateholders' right to any profit will be cancelled or permanently written-down (in whole or in part) upon the occurrence of a Non-Viability Event*".

Periodic Distribution Amounts (as defined herein) shall be payable subject to and in accordance with the Conditions on the outstanding face amount of the Certificates from (and including) the Issue Date to (but excluding) 1 April 2027 (the "**First Reset Date**") at a rate of 3.950 per cent. per annum from amounts of Rab-al-Maal Mudaraba Profit and Rab-al-Maal Final Mudaraba Profit (as further described below). If the Certificates are not redeemed or purchased and cancelled in accordance with the Conditions on or prior to the First Reset Date, Periodic Distribution Amounts shall be payable from (and including) the First Reset Date subject to and in accordance with the Conditions at a fixed rate, to be reset on the First Reset Date and every six years thereafter, equal to the Relevant Six Year Reset Rate (as defined in the Conditions) plus a margin of 2.896 per cent. per annum. Periodic Distribution Amounts will, if payable pursuant to the Conditions, be payable semi-annually in arrear on 1 April and 1 October in each year, commencing 1 October 2021. Payments on the Certificates will be made free and clear of and without withholding or deduction for, or on account of, any present or future taxes, levies, imposts, duties, fees, assessments or other charges of whatever nature, imposed, levied, collected, withheld or assessed by or on behalf of any Relevant Jurisdiction (as defined herein) (the "**Taxes**") to the extent described under Condition 13 (*Taxation*). Each payment of a Periodic Distribution Amount will be made by the Trustee provided that the Bank (in its capacity as Mudareb (as defined herein)) shall have paid Rab-al-Maal Mudaraba Profit and Rab-al-Maal Final Mudaraba Profit (as applicable) (each as defined in the Conditions) equal to such Periodic Distribution Amount pursuant to the terms of the Mudaraba Agreement (as defined herein). Payments of such profit amounts under the Mudaraba Agreement are subject to mandatory cancellation if a Non-Payment Event (as defined herein) occurs, and are otherwise at the sole discretion of the Bank (as Mudareb). Any Periodic Distribution Amounts not paid as aforesaid will not accumulate and neither the Trustee nor the Certificateholders shall have any claim in respect thereof.

The payment obligations of the Bank under the Mudaraba Agreement (as defined herein) (including all payments which are the equivalent of principal and profit) (the "**Relevant Obligations**") will rank in priority to all Junior Obligations (as defined in the Conditions).

The Certificates are perpetual securities and have no fixed or final redemption date. Unless the Certificates have previously been redeemed or purchased and cancelled as provided in the Conditions, the Bank may (acting in its sole discretion) instruct the Trustee to, whereupon the Trustee shall, redeem all but not some only of the Certificates on 1 October 2026 (the "**First Call Date**") and on any date thereafter up to and including the First Reset Date, or on any Periodic Distribution Date thereafter in accordance with Condition 10.1(b) (*Trustee's Call Option*). In addition, upon the occurrence of a Tax Event or a Capital Event (each as defined in the Conditions), the Certificates may be redeemed in whole (but not in part), or the terms thereof may be varied (by the Trustee (but only upon the instructions of the Bank (acting in its sole discretion)), in each case at any time on or after the Issue Date in accordance with Conditions 10.1(c) (*Redemption or Variation due to Taxation*) and 10.1(d) (*Redemption or Variation for Capital Event*). Any redemption or variation is subject to the conditions described in Condition 10.1 (*Redemption and variation*).

The Bank has been assigned long term ratings of "A+" with a negative outlook by Fitch Ratings Limited ("**Fitch**"), "A3" with a stable outlook by Moody's Investors Service Cyprus Ltd. ("**Moody's**") and "A-" with a stable outlook by S&P Global Ratings ("**Standard & Poor's**"). Moody's and Standard & Poor's are established in the European Union and are registered under Regulation (EC) No. 1060/2009 as amended (the "**EU CRA Regulation**"). As such, each of Moody's and Standard & Poor's is included in the list of credit rating agencies published by the European Securities and Markets Authority ("**ESMA**") on its website (at http://www.esma.europa.eu/page/List-registered-and-certified-CRAs) in accordance with the EU CRA Regulation. The rating issued by Standard & Poor's to the Bank is endorsed by S&P Global Ratings UK Limited, which is established in the United Kingdom and registered under Regulation (EC) No. 1060/2009 as it forms part of domestic law by virtue of the European (Withdrawal) Act 2018 (the "**EUWA**") (the "**UK CRA Regulation**"). The rating issued by Moody's to the Bank is endorsed by Moody's Investors Service Ltd., which is established in the United Kingdom and registered under the UK CRA Regulation. Fitch is established in the United Kingdom and registered under the UK CRA Regulation. Fitch appears on the latest update of the list of registered credit rating agencies (as of 21 March 2021) on the United Kingdom Financial Conduct Authority's Financial Services Register. The rating issued by Fitch to the Bank is endorsed by Fitch Ratings Ireland Limited, which is established in the European Union and registered under the EU CRA Regulation. As such, Fitch Ratings Ireland Limited is included in the list of credit rating agencies published by ESMA on its website (at http://www.esma.europa.eu/page/List-registered-and-certified-CRAs) in accordance with the EU CRA Regulation.

**A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. A suspension, reduction or withdrawal of any rating assigned to the Certificates may adversely affect the market price of the Certificates.**

The Certificates will be limited recourse obligations of the Trustee. An investment in the Certificates involves certain risks. For a discussion of these risks, see "*Risk Factors*".

This Prospectus has been approved by the Central Bank of Ireland (the "**Central Bank of Ireland**") as competent authority under Regulation (EU) 2017/1129 (the "**Prospectus Regulation**"). This Prospectus constitutes a prospectus for the purposes of the Prospectus Regulation. The Central Bank of Ireland only approves this Prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by the Prospectus Regulation. Such approval should not be considered as an endorsement of the Trustee, the Bank or the quality of the Certificates that are the subject of this Prospectus and investors should make their own assessment as to the suitably of investing in the Certificates. Application has been made to the Irish Stock Exchange plc trading as Euronext Dublin ("**Euronext Dublin**") for the Certificates to be admitted to its official list (the "**Official List**") and to trading on the regulated market of Euronext Dublin (the "**Regulated Market**"). The Regulated Market is a regulated market for the purposes of Directive 2014/65/EU of the European Parliament and of the Council on markets in financial instruments, as amended ("**MiFID II**"). References in this Prospectus to the Certificates being "**listed**" (and all related references) shall mean that such Certificates have been admitted to the Official List and have been admitted to trading on the Regulated Market.

Amounts payable under the Certificates, following the First Reset Date, will be calculated by reference to rates for U.S. Treasury securities which are published by the U.S. Federal Reserve System. As of the date of this Prospectus, the U.S. Department of Treasury does not appear on the register of administrators and benchmarks established and maintained by ESMA pursuant to Article 36 of Regulation (EU) 2016/1011 (the "**Benchmarks Regulation**"). As far as the Trustee is aware, the U.S. Department of Treasury does not fall within the scope of the Benchmarks Regulation by virtue of article 2 of the Benchmarks Regulation.

The Certificates will be represented by interests in a global certificate in registered form (the "**Global Certificate**") deposited on or before the Issue Date with, and registered in the name of a nominee for, a common depositary (the "**Common Depositary**") for, Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, S.A. ("**Clearstream, Luxembourg**"). Interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg. Definitive Certificates evidencing holdings of interests in the Certificates will be issued in exchange for interests in the Global Certificate only in certain limited circumstances described herein.

This Prospectus will be valid for a year from 29 March 2021. The obligation to supplement this Prospectus in the event of significant new factors, material mistakes or material inaccuracies will not apply when this Prospectus is no longer valid. For this purpose, "valid" means valid for admissions to trading on a regulated market by or with the consent of the Trustee and the obligation to supplement this Prospectus is only required within its period of validity between the time when this Prospectus is approved and the closing of the offer period for the Certificates or the time when trading on a regulated market begins, whichever occurs later.

The Certificates have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**") or with any securities regulatory authority of any state or other jurisdiction of the United States. Subject to certain exceptions, the Certificates may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act ("**Regulation S**")). For a description of certain restrictions on offers and sales of Certificates and on distribution of this Prospectus, see "*Subscription and Sale*".

The transaction structure relating to the Certificates (as described in this Prospectus) has been approved by the Fatwa & Shari'a Supervisory Board of the Bank, the Shariah Advisory Board of Citi Islamic Investment Bank E.C. and the Global Shariah Supervisory Committee of Standard Chartered Bank. Prospective Certificateholders should not rely on such approvals in deciding whether to make an investment in the Certificates and should consult their own *Shari'a* advisers as to whether the proposed transaction described in such approvals is in compliance with their individual standards of compliance with *Shari'a* principles.

The Certificates may only be offered, sold or transferred in registered form in minimum face amounts of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof.

**Joint Global Co-ordinators**

| | | |
|---|---|---|
| **Citigroup** | **NBK Capital** | **Standard Chartered Bank** |

**Joint Lead Managers**

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|---|---|---|
| **Abu Dhabi Islamic Bank** | **Boubyan Capital** | **Citigroup** |
| **Emirates NBD Capital** | **Kamco Invest** | **KFH Capital** |
| **KIB** | **NBK Capital** | **Standard Chartered Bank** |

**The date of this Prospectus is 29 March 2021**

This Prospectus comprises a prospectus for the purposes of the Prospectus Regulation.

The Trustee and the Bank accept responsibility for the information contained in this Prospectus. To the best of the knowledge of each of the Trustee and the Bank, the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

The Prospectus should be read and construed together with any amendments or supplements hereto and with all documents which are incorporated herein by reference (see "*Documents Incorporated by Reference*").

The opinions, assumptions, intentions, projections and forecasts expressed in this Prospectus with regard to the Trustee and the Bank are honestly held by the Trustee and the Bank, have been reached after considering all relevant circumstances and are based on reasonable assumptions and are not misleading in any material respect.

None of the Joint Lead Managers, the Delegate or the Agents (as defined in the Agency Agreement), or any of their respective directors, affiliates, advisers or agents, has independently verified the information contained or incorporated by reference herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by any of them (i) as to the accuracy, adequacy, reasonableness or completeness of the information contained or incorporated by reference in this Prospectus or any other information provided by the Trustee or the Bank in connection with the Certificates or (ii) for any acts or omissions of the Trustee, the Bank or any other person in connection with this Prospectus or the issue and offering of the Certificates.

To the fullest extent permitted by law, the Joint Lead Managers, the Delegate and the Agents accept no responsibility whatsoever for the contents of this Prospectus or for any other statement, made or purported to be made by a Joint Lead Manager, the Delegate or any Agent or on its behalf in connection with the Trustee, the Bank or the issue and offering of the Certificates. Each Joint Lead Manager, the Delegate and each Agent accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Prospectus or any such statement.

No person is or has been authorised by the Trustee, the Bank, the Delegate or the Agents to give any information or to make any representation not contained in or not consistent with this Prospectus or any other document entered into in relation to the offering of the Certificates and, if given or made, such information or representation should not be relied upon as having been authorised by the Trustee, the Bank, the Delegate, the Agents or any of the Joint Lead Managers. None of the Joint Lead Managers, the Delegate or the Agents, or any of their respective directors, affiliates, advisers or agents make any representation or warranty or accept any liability as to the accuracy or completeness of the information contained in this Prospectus.

Neither the delivery of this Prospectus nor the offering, sale or delivery of the Certificates shall, in any circumstances, constitute a representation or create any implication that the information contained in this Prospectus is correct subsequent to the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the prospects or the financial or trading position of the Trustee or the Bank since the date hereof or, if later, the date upon which this Prospectus has been most recently amended or supplemented or that any other information supplied in connection with the Certificates is correct at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

No comment is made, or advice given, by the Trustee, the Delegate, the Agents, the Bank or the Joint Lead Managers, or any of their respective directors, affiliates, advisers or agents, in respect of taxation matters relating to the Certificates or the legality of the purchase of the Certificates by an investor under applicable or similar laws. Any investor in the Certificates should be able to bear the economic risk of an investment in the Certificates for an indefinite period of time.

The Certificates have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. Accordingly, the Certificates may be offered or sold solely to persons who are not U.S. persons outside the United States in reliance on Regulation S. Each purchaser of the Certificates is hereby notified that the offer and sale of Certificates to it is being made in reliance on the exemption from the registration requirements of the Securities Act provided by Regulation S.

The transaction structure relating to the Certificates (as described in this Prospectus) has been approved by the Fatwa & Shari'a Supervisory Board of the Bank, the Shariah Advisory Board of Citi Islamic Investment Bank E.C. and the Global Shariah Supervisory Committee of Standard Chartered Bank. Prospective Certificateholders should not rely on such approvals in deciding whether to make an investment in the Certificates and should consult their own *Shari'a* advisers as to whether the proposed transaction described in such approvals is in compliance with their individual standards of compliance with *Shari'a* principles.

**Each prospective investor is advised to consult its own Shari'a adviser, tax adviser, legal adviser and business adviser as to Shari'a, tax, legal, business and related matters concerning the purchase of any Certificates.**

This Prospectus does not constitute an offer to sell or a solicitation of an offer to buy Certificates in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. None of the Joint Lead Managers, the Trustee, the Delegate, the Agents or the Bank makes any representation to any investor in the Certificates regarding the legality of its investment under any applicable laws. Any investor in the Certificates should be able to bear the economic risk of an investment in the Certificates for an indefinite period of time.

The distribution of this Prospectus and the offering, sale and delivery of the Certificates in certain jurisdictions may be restricted by law. None of the Trustee, the Bank, the Joint Lead Managers, the Delegate or the Agents, or any of their respective directors, affiliates, advisers or agents represents that this Prospectus may be lawfully distributed, or that Certificates may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Trustee, the Bank, the Joint Lead Managers, the Delegate or the Agents, or any of their respective directors, affiliates, advisers or agents, which is intended to permit a public offering of the Certificates or distribution of this Prospectus in any jurisdiction where action for that purpose is required.

Accordingly, the Certificates may not be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations.

If a jurisdiction requires that the offering be made by a licensed broker or dealer and any of the Joint Lead Managers or any affiliate of the Joint Lead Managers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by that Joint Lead Manager or such affiliate on behalf of the Trustee in such jurisdiction.

Persons into whose possession this Prospectus comes are required by the Trustee, the Bank and the Joint Lead Managers to inform themselves about and to observe any such restrictions. In particular, there are restrictions on the distribution of this Prospectus and the offer or sale of the Certificates in the United States, the United Kingdom (the "**UK**"), the European Economic Area (the "**EEA**"), the Cayman Islands, the UAE (excluding the Dubai International Financial Centre), the Dubai International Financial Centre, the State of Kuwait ("**Kuwait**"), the Kingdom of Bahrain, the Kingdom of Saudi Arabia, the State of Qatar (including the Qatar Financial Centre), Japan, Hong Kong, Malaysia, Singapore and Switzerland.

For a description of the restrictions on offers, sales and deliveries of Certificates and on the distribution of this Prospectus and other offering material relating to the Certificates, see "*Subscription and Sale*".

This Prospectus does not constitute an offer or an invitation to subscribe for or purchase Certificates, is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Trustee, the Bank, the Delegate, the Agents or the Joint Lead Managers, or any of their respective directors, affiliates, advisers or agents that any recipient of this Prospectus or any other information supplied in connection with the issue of the Certificates should subscribe for, or purchase, the Certificates. Each recipient of this Prospectus should make, and shall be taken to have made, its own independent investigation and appraisal of the condition (financial or otherwise) and affairs, and its own appraisal of the creditworthiness, of the Trustee and the Bank. None of the Joint Lead Managers, the Delegate or any Agent undertakes to review the financial condition or affairs of the Trustee or the Bank during the life of the arrangements contemplated by this Prospectus nor to advise any investor or potential investor in the Certificates of any information coming to the attention of any of the Joint Lead Managers, the Delegate or any Agent. None of the Joint Lead Managers, the Delegate or the Agents, or any of their directors, affiliates, advisers or agents, accepts any liability in relation to the information contained in this Prospectus or any other information provided by the Trustee or the Bank in connection with the Certificates.

The Certificates may not be a suitable investment for all investors. Each potential investor in Certificates must determine the suitability of its investment in light of its own circumstances. In particular, each potential investor should, either on its own or with the help of its financial and other professional advisers:

(i) have sufficient knowledge and experience to make a meaningful evaluation of the Certificates, the merits and risks of investing in the Certificates and the information contained in this Prospectus;

(ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Certificates and the impact the Certificates will have on its overall investment portfolio;

(iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Certificates, including where the currency of payment is different from the potential investor's currency;

(iv) understand thoroughly the terms of the Certificates and be familiar with the behaviour of any relevant indices and financial markets; and

(v) be able to evaluate possible scenarios for economic and other factors that may affect its investment and its ability to bear the applicable risks.

The Certificates are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in the Certificates unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Certificates will perform under changing conditions, the resulting effects on the value of the Certificates and the impact this investment will have on the potential investor's overall investment portfolio.

Legal investment considerations may restrict certain investments. The investment activities of certain investors are subject to investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent: (a) the Certificates are legal investments for it; (b) the Certificates can be used as collateral for various types of financing; and (c) other restrictions apply to its purchase or pledge of any Certificates. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Certificates under any applicable risk-based capital or similar rules.

# STABILISATION

In connection with the issue of the Certificates, Standard Chartered Bank (the "**Stabilisation Manager**") (or persons acting on behalf of the Stabilisation Manager) may effect transactions with a view to supporting the market price of the Certificates at a level higher than that which might otherwise prevail, but in so doing, the Stabilisation Manager shall act as principal and not as agent of the Trustee or the Bank. However, there is no assurance that the Stabilisation Manager (or persons acting on behalf of the Stabilisation Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the Issue Date and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the Issue Date and 60 days after the date of the allotment of the Certificates. Any stabilisation action conducted by the Stabilisation Manager (or persons acting on behalf of the Stabilisation Manager) must be conducted in accordance with all applicable laws and rules.

# CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

Some statements in this Prospectus may be deemed to be forward looking statements. The words "anticipate", "believe", "expect", "plan", "intend", "targets", "aims", "seeks", "estimate", "project", "will", "would", "may", "could", "continue", "should" and similar expressions are intended to identify forward looking statements. All statements other than statements of historical fact included in this Prospectus, including, without limitation, those regarding the financial position of the Bank, or the business strategy, management plans and objectives for future operations of the Bank, are forward looking statements. These forward looking statements involve known and unknown risks, uncertainties and other factors, which may cause the Bank's actual results, performance or achievements, or industry results, to be materially different from those expressed or implied by these forward looking statements. These forward-looking statements are contained in the sections entitled "*Risk Factors*" and "*Description of the Group*" and other sections of this Prospectus. The Bank has based these forward looking statements on the current view of its management with respect to future events and financial performance. These forward looking statements are based on numerous assumptions regarding the Bank's present, and future, business strategies and the environment in which the Bank expects to operate in the future. Important factors that could cause the Bank's actual results, performance or achievements to differ materially from those in the forward looking statements are discussed in this Prospectus (see "*Risk Factors*").

Forward looking statements speak only as at the date of this Prospectus and, without prejudice to any requirements under applicable laws and regulations, the Trustee and the Bank expressly disclaim any obligation or undertaking to publicly update or revise any forward looking statements in this Prospectus to reflect any change in the expectations of the Trustee or the Bank or any change in events, conditions or circumstances on which these forward looking statements are based. Given the uncertainties of forward looking statements, the Trustee and the Bank cannot assure potential investors that projected results or events will be achieved and the Trustee and the Bank caution potential investors not to place undue reliance on these statements.

# PRESENTATION OF CERTAIN FINANCIAL AND OTHER INFORMATION

## PRESENTATION OF FINANCIAL INFORMATION

### Historical financial statements

The financial statements relating to the Bank and its subsidiaries (collectively, the "**Group**") included in this Prospectus are:

- as at and for the year ended 31 December 2020 (with comparative data as at and for the year ended 31 December 2019) (the "**2020 Financial Statements**"); and

- as at and for the year ended 31 December 2019 (with comparative data as at and for the year ended 31 December 2018) (the "**2019 Financial Statements**" and, together with the 2020 Financial Statements, the "**Financial Statements**").

The Financial Statements have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") issued by the International Accounting Standards Board, as adopted by Kuwait for financial services institutions regulated by the Central Bank of Kuwait (the "**CBK**").

These regulations require the adoption of all IFRS requirements except for: (i) in the case of the 2019 Financial Statements, expected credit loss ("**ECL**") should be measured at the higher of the ECL on financing facilities computed under IFRS 9 according to the CBK guidelines or the provisions as required by CBK instructions, and (ii) in the case of the 2020 Financial Statements:(a) ECL should be measured at the higher of the ECL amount on financing facilities computed under IFRS 9 as implemented in accordance with the CBK guidelines, or the provisions as required by CBK instructions along with its consequent impact on related disclosures; and (b) modification losses on financial assets arising from payment holidays to customers in response to COVID-19 recognised in retained earnings instead of consolidated statement of profit or loss as required by IFRS 9.

The Group adopted IFRS 16 with effect from 1 January 2019 (see further Note 2.4 (*Changes in accounting policies and disclosures*) to the 2020 Financial Statements).

The Group also adopted profit rate benchmark reform (IBOR Reform Phase 1) and other amendments to IFRS with effect from 1 January 2020 with no impact on the Financial Statements.

Due to reclassifications made in the 2020 Financial Statements (see further Note 2.2 (*Basis of measurement*) to the 2020 Financial Statements) all financial information for 2019 included in this Prospectus has been derived from the 2020 Financial Statements.

The Financial Statements have been audited in accordance with International Standards on Auditing by Ernst & Young Al Aiban, Al Osaimi & Partners and Deloitte & Touche Al-Wazzan & Co. ("**Deloitte Kuwait**"), without qualification as stated in their reports incorporated by reference herein.

The Group's financial year ends on 31 December and references in this Prospectus to "**2020**", "**2019**" and "**2018**" are to the 12 month period ending on 31 December in each such year.

### References to "deposits from financial institutions"

In this Prospectus, unless otherwise indicated, references to "deposits from financial institutions" are to the line item "due to banks" in the consolidated statement of financial position of the Financial Statements.

### Certain non-IFRS financial information

This Prospectus includes references to capital, leverage and certain other ratios. Although these ratios are not IFRS measures, the Bank believes that the capital and leverage ratios in particular are important to understanding its capital and leverage position, particularly in light of current or planned future regulatory requirements to maintain these ratios above prescribed minimum levels. The Bank's interpretation of any future planned ratios and the basis of its calculation of these ratios may be different from those of other financial institutions.

### Presentation of Alternative Performance Measures

In this Prospectus, the Bank uses the following metrics in the analysis of its business and financial position, which the Bank considers to constitute Alternative Performance Measures as defined in the ESMA Guidelines. For further information, see "*Selected Financial Information – Selected Ratios*".

| Metric | Definition and method of calculation | Rationale for inclusion |
|---|---|---|
| Return on average assets | Profit for the year attributable to shareholders of the Bank divided by average assets for the year, with average assets calculated as the sum of assets at the end of each quarter divided by five | Performance measure to express how well assets are being used to generate profits |
| Return on average equity | Profit for the year attributable to shareholders of the Bank less Tier 1 profit divided by average shareholders' equity for the year, with average shareholders' equity calculated as the sum of shareholders' equity at the end of each quarter divided by five | Performance measure to express profitability in relation to average shareholders' equity |
| Cost to income ratio | Operating expenses divided by net operating income | Performance measure to express operating efficiency |
| Net profit rate margin | Net income from Islamic financing to customers net of finance cost and distribution to depositors divided by average profit earning assets for the year, with average profit earning assets calculated as the sum of profit earning assets at the end of each quarter divided by five. Profit earning assets comprise deposits with the CBK and other banks, Islamic financing to customers and investment in sukuk ("**Sukuk**") | Profitability measure to express the spread generated on profit earning assets |
| Net profit margin | Profit for the year attributable to shareholders of the Bank divided by net operating income for the year | Profitability measure to express how much of revenue translates into profit |
| Impaired Islamic financing ratio | Impaired Islamic financing to customers as a percentage of total gross Islamic financing to customers | Asset quality measure |
| Provision for impairment ratio | Provision for impairment as a percentage of impaired Islamic financing to customers | Asset quality measure to express the sufficiency of provisions in respect of impaired Islamic financing to customers |

| | | |
|---|---|---|
| Liquid assets ratio | Sum of liquid funds, trading securities and placements divided by total assets | Asset quality measure to express liquidity |
| Liquidity coverage ratio | Calculated as stipulated in CBK Circular No. 2/RB/346/2014 dated 23 December 2014 and CBK Circular No. 2/RB/363/2016 dated 2 February 2016 | Asset quality measure to express short-term liquidity risk profile (i.e. adequate stock of unencumbered high-quality liquid assets that can be converted easily and immediately in private markets into cash to meet liquidity needs for a 30 calendar day liquidity stress scenario) |
| Islamic financing to customers to depositors' accounts and due to banks ratio | Total Islamic financing to customers divided by the sum of depositors' accounts and due to banks | Asset quality measure to express ability to make payments to customers withdrawing their deposits and banks calling on their dues |
| Islamic financing to customers to depositors' accounts ratio | Total Islamic financing to customers divided by the sum of depositors' accounts | Asset quality measure to express ability to make payments to customers withdrawing their deposits |

## PRESENTATION OF OTHER INFORMATION

### Rounding

Certain figures and percentages included in this Prospectus have been subject to rounding adjustments. For the purposes of calculating certain figures and percentages, the underlying numbers used have been extracted from the relevant financial statements rather than the rounded numbers contained in this Prospectus. Accordingly, figures shown in the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

### Currencies

Unless otherwise indicated, in this Prospectus, all references to:

- "**KD**" and "**dinar**" are to the lawful currency of Kuwait and to "**fils**" are to the sub-unit of dinar (1,000 fils are equal to KD 1); and
- "**U.S.$**" and "**U.S. dollars**" are to the lawful currency of the United States.

Unless otherwise indicated, the financial information contained in this Prospectus has been expressed in dinar. The Group's functional currency is the dinar and the Group prepares its financial statements in dinar.

### Third party and market share data

There is no independently determined financial services industry data available in Kuwait. As a result, any Group market share data included in this Prospectus represents the Bank's estimates of the Group's market shares based on the financial statements published by Kuwaiti banking groups and, where available, industry data, such as that produced by the CBK. All such market share information is referred to herein as having been estimated and potential investors should note that the data so derived includes significant assets and liabilities outside Kuwait and excludes any Kuwaiti assets and liabilities of non-Kuwaiti banking groups. As a result, it simply represents an approximation of the Group's actual market shares. Nevertheless, the Bank believes that its estimates of the Group's market share are helpful as they give prospective investors a better understanding of the industry in which the Group operates as well as its position within that industry. Although all such estimations have been made in good faith based on the information available and the Bank's knowledge of the market within which it operates, the Bank cannot guarantee that a third party expert using different methods would reach the same conclusions.

Statistical information relating to Kuwait included in this Prospectus has been derived from official public sources, including the Organisation of Petroleum Exporting Countries ("**OPEC**"), the International Monetary Fund (the "**IMF**"), the Sovereign Wealth Fund Institute, the Kuwait Public Authority for Civil Information, the CBK and the Kuwait Central Statistical Bureau (the "**KSB**"). All such statistical information may differ from that stated in other sources for a variety of reasons, including the fact that the underlying assumptions and methodology (including definitions and cut-off times) may vary from source to source. This data may subsequently be revised as new data becomes available and any such revised data will not be circulated by the Trustee or the Bank to investors who have purchased any Certificates.

Certain statistical and other information in this Prospectus, including in relation to gross domestic product ("**GDP**"), balance of payments, revenues and expenditures, and indebtedness of the Kuwaiti government (the "**Government**"), have been obtained from public sources identified in this Prospectus. All statistical information provided in this Prospectus, and the component data on which it is based, may not have been compiled in the same manner as data provided by, and may be different from statistics published by, other sources, for a variety of reasons, including the use of different definitions and cut-off times. Accordingly, the statistical data contained in this Prospectus should be treated with caution by prospective investors. The Trustee and the Bank accept responsibility for accurately reproducing all such third party information and, as far as each of the Trustee and Bank is aware and is able to ascertain from that published information, no facts have been omitted which would render such reproduced information inaccurate or misleading.

Where information has not been independently sourced, it is the Bank's own information.

### No incorporation of website information

The Bank's website is https://boubyan.bankboubyan.com. The information on this website or any other website mentioned in this Prospectus or any website directly or indirectly linked to these websites has not been verified and is not incorporated by reference into this Prospectus, and investors should not rely on it.

### Certain definitions

Capitalised terms which are used but not defined in any section of this Prospectus will have the meaning attributed thereto in the Conditions or any other section of this Prospectus. In addition, the following terms as used in this Prospectus have the meanings defined below:

- references to "**GCC**" are to the Gulf Co-operation Council;
- references to "**Kuwait**" are to the State of Kuwait; and
- references to the "**MENA**" region are to the Middle East and North Africa region.

**UK MiFIR PRODUCT GOVERNANCE / PROFESSIONAL INVESTORS AND ECPS ONLY TARGET MARKET**

Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Certificates has led to the conclusion that: (i) the target market for the Certificates is only eligible counterparties, as defined in the FCA Handbook Conduct of Business Sourcebook ("**COBS**"), and professional clients, as defined in the Article 2(1)(13A) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA (the "**UK MiFIR**"); and (ii) all channels for distribution of the Certificates to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Certificates (a "**distributor**") should take into consideration the manufacturers' target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook is responsible for undertaking its own target market assessment in respect of the Certificates (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

## PRIIPS REGULATION / PROHIBITION OF SALES TO EEA RETAIL INVESTORS

The Certificates are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of the Directive (EU) 2016/97 (the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Certificates or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Certificates or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

## PROHIBITION OF SALES TO UK RETAIL INVESTORS

The Certificates are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the UK. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the EUWA; or (ii) a customer within the meaning of the Financial Services and Markets Act 2000 (the "**FSMA**") and any rules or regulations made under the FSMA to implement the Insurance Distribution Directive, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA. Consequently, no key information document required by the PRIIPs Regulation as it forms part of domestic law by virtue of the EUWA (the "**UK PRIIPs Regulation**") for offering or selling the Certificates or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Certificates or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

## SINGAPORE SFA PRODUCT CLASSIFICATION

In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the "**SFA**") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), the Trustee has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Certificates are 'prescribed capital markets products' (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

## VOLCKER RULE

The Volcker Rule, which became effective on 1 April 2014, but was subject to a conformance period for certain entities that concluded on 21 July 2015, generally prohibits "banking entities" (which is broadly defined to include U.S. banks and bank holding companies and many non-U.S. banking entities, together with their respective subsidiaries and other affiliates) from (i) engaging in proprietary trading, (ii) acquiring or retaining an ownership interest in or sponsoring a "covered fund" and (iii) entering into certain relationships with "covered funds". The general effects of the Volcker Rule remain uncertain; any prospective investor in the Certificates and any entity that is a "banking entity" as defined under the Volcker Rule which is considering an investment in the Certificates should consult its own legal advisers and consider the potential impact of the Volcker Rule in respect of such investment. If investment by "banking entities" in the Certificates is prohibited or restricted by the Volcker Rule, this could impair the marketability and liquidity of such Certificates. No assurance can be made as to the effect of the Volcker Rule on the ability of certain investors subject thereto to acquire or retain an interest in the Certificates, and accordingly none of the Trustee, the Bank, the Joint Lead Managers, the Delegate or the Agents, or any of their respective directors, affiliates, advisers or agents, makes any representation regarding (a) the status of the Trustee under the Volcker Rule (including whether it is a "covered fund" for their purposes) or (b) the ability of any purchaser to acquire or hold the Certificates, now or at any time in the future.

## NOTICE TO RESIDENTS OF THE UK

The Certificates represent interests in a collective investment scheme (as defined in the FSMA) which has not been authorised, recognised or otherwise approved by the UK Financial Conduct Authority. Accordingly, this Prospectus is not being distributed to and must not be passed on to the general public in the UK.

The distribution in the UK of this Prospectus and any other marketing materials relating to the Certificates is being addressed to, or directed at: (A) if the distribution of the Certificates is being effected by a person who is not an authorised person under the FSMA, only the following persons: (i) persons who are Investment Professionals as defined in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "**Financial Promotion Order**"); (ii) persons falling within any of the categories of persons described in Article 49(2) (High net worth companies, unincorporated associations, etc.) of the Financial Promotion Order; and (iii) any other person to whom it may otherwise lawfully be made in accordance with the Financial Promotion Order; and (B) if the distribution is effected by a person who is an authorised person under the FSMA, only the following persons: (i) persons falling within one of the categories of Investment Professional as defined in Article 14(5) of the Financial Services and Markets Act 2000 (Promotion of Collective Investment Schemes) (Exemptions) Order 2001 (the "**Promotion of CISs Order**"), (ii) persons falling within any of the categories of person described in Article 22 (High net worth companies, unincorporated associations, etc.) of the Promotion of CISs Order and (iii) any other person to whom it may otherwise lawfully be made in accordance with the Promotion of CISs Order. Persons of any other description in the UK may not receive and should not act or rely on this Prospectus or any other marketing materials in relation to the Certificates.

Potential investors in the UK in the Certificates are advised that all, or most, of the protections afforded by the UK regulatory system will not apply to an investment in the Certificates and that compensation will not be available under the UK Financial Services Compensation Scheme.

Any individual intending to invest in the Certificates should consult his professional adviser and ensure that he fully understands all the risks associated with making such an investment and that he has sufficient financial resources to sustain any loss that may arise from such investment.

## NOTICE TO RESIDENTS OF THE CAYMAN ISLANDS

No invitation, whether directly or indirectly, may be made to the public in the Cayman Islands to subscribe for the Certificates and this Prospectus shall not be construed as an invitation to the public of the Cayman Islands to subscribe for the Certificates.

## NOTICE TO RESIDENTS OF THE KINGDOM OF SAUDI ARABIA

This Prospectus may not be distributed in the Kingdom of Saudi Arabia except to such persons as are permitted under the Rules on the Offer of Securities and Continuing Obligations issued by the Capital Market Authority of the Kingdom of Saudi Arabia (the "**Capital Market Authority**").

The Capital Market Authority does not make any representations as to the accuracy or completeness of this Prospectus, and expressly disclaims any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this Prospectus. Prospective purchasers of Certificates should conduct their own due diligence on the accuracy of the information relating to the Certificates. If a prospective purchaser does not understand the contents of this Prospectus he or she should consult an authorised financial adviser.

## NOTICE TO RESIDENTS OF THE KINGDOM OF BAHRAIN

In relation to investors in the Kingdom of Bahrain, securities issued in connection with this Prospectus and related offering documents may only be offered in registered form to existing account holders and accredited investors as defined by the Central Bank of Bahrain (the "**CBB**") in the Kingdom of Bahrain where such investors make a minimum investment of at least U.S.$100,000 or any equivalent amount in other currency or such other amount as the CBB may determine.

This offer does not constitute an offer of securities in the Kingdom of Bahrain pursuant to the terms of Article (81) of the Central Bank and Financial Institutions Law 2006 (decree Law No. 64 of 2006). This Prospectus and related offering documents have not been and will not be registered as a prospectus with the CBB. Accordingly, no Certificates may be offered, sold or made the subject of an invitation for subscription or purchase nor will this Prospectus or any other related document or material be used in connection with any offer, sale or invitation to subscribe or purchase Certificates, whether directly or indirectly, to persons in the Kingdom of Bahrain, other than to accredited investors for an offer outside the Kingdom of Bahrain.

The CBB has not reviewed, approved or registered this Prospectus or related offering documents and it has not in any way considered the merits of the securities to be offered for investment, whether in or outside the Kingdom of Bahrain. Therefore, the CBB assumes no responsibility for the accuracy and completeness of the statements and information contained in this Prospectus and expressly disclaims any liability whatsoever for any loss howsoever arising from reliance upon the whole or any part of the content of this Prospectus. No offer of Certificates will be made to the public in the Kingdom of Bahrain and this Prospectus must be read by the addressee only and must not be issued, passed to, or made available to the public generally.

## NOTICE TO RESIDENTS OF THE STATE OF QATAR

The Certificates will not be offered, sold or delivered at any time, directly or indirectly, in the State of Qatar (including the Qatar Financial Centre) in a manner that would constitute a public offering. This Prospectus has not been and will not be reviewed or approved by or registered with the Qatar Financial Markets Authority, the Qatar Financial Centre Regulatory Authority, the Qatar Stock Exchange or the Qatar Central Bank in accordance with their regulations or any other regulations in the State of Qatar. The Certificates are not and will not be traded on the Qatar Exchange. The Certificates and interests therein will not be offered to investors domiciled or resident in the State of Qatar and do not constitute debt financing in the State of Qatar under the Commercial Companies Law No. (11) of 2015 or otherwise under the laws of the State of Qatar.

## NOTICE TO RESIDENTS OF KUWAIT

Unless all necessary approvals from the Kuwait Capital Markets Authority (the "**CMA**") pursuant to Law No. 7 of 2010, and its executive bylaws (each as amended) (the "**CML Rules**"), together with the various resolutions, regulations, directives and instructions issued pursuant thereto, or in connection therewith (regardless of nomenclature) or any other applicable or regulation in Kuwait, have been given in relation to the marketing of, and sale of, the Certificates (the "**CMA Approval**"), the Certificates may not be offered for sale, nor sold, in Kuwait.

This Prospectus is not for general circulation to the public in Kuwait nor will the Certificates be sold by way of a public offering in Kuwait. In the event where the Certificates are intended to be purchased onshore in Kuwait pursuant to a CMA Approval, the same may only be so purchased through a licensed person duly authorised to undertake such activity pursuant to the CML Rules. Investors from Kuwait acknowledge that the CMA and all other regulatory bodies in Kuwait assume no responsibility whatsoever for the contents of this Prospectus and do not approve the contents thereof or verify the validity and accuracy of its contents. The CMA, and all other regulatory bodies in Kuwait, assume no responsibility whatsoever for any damages that may result from relying (in whole or in part) on the contents of this Prospectus. Prior to purchasing any Certificates, it is recommended that a prospective holder of any Certificates seeks professional advice from its advisers in respect to the contents of this Prospectus so as to determine the suitability of purchasing the Certificates.

## NOTICE TO RESIDENTS OF MALAYSIA

The Certificates may not be offered for subscription or purchase and no invitation to subscribe for or purchase the Certificates in Malaysia may be made, directly or indirectly, and this Prospectus or any document or other materials in connection therewith may not be distributed in Malaysia other than to persons falling within the categories set out in Part I of Schedule 6 or Section 229(1)(b), Part I of Schedule 7 or Section 230(1)(b), read together with Schedule 8 or Section 257(3) of the Capital Market and Services Act 2007 of Malaysia, as may be amended and/or varied from time to time and subject to any amendments to the applicable laws from time to time.

The Securities Commission of Malaysia shall not be liable for any non-disclosure on the part of the Trustee or the Bank and assumes no responsibility for the correctness of any statements made or opinions or reports expressed in this Prospectus.

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# RISK FACTORS

*The purchase of the Certificates may involve substantial risks and is suitable only for sophisticated investors who have the knowledge and experience in financial and business matters necessary to enable them to evaluate the risks and merits of an investment in the Certificates. Before making an investment decision, prospective purchasers of the Certificates should consider carefully, in light of their own financial circumstances and investment objectives, all of the information in this Prospectus.*

*Each of the Trustee and the Bank believes that the following factors may affect their ability to fulfil their respective obligations under the Certificates and the Transaction Documents. All of these factors are contingencies which may or may not occur. Factors which the Trustee and the Bank believe may be material for the purpose of assessing the market risks associated with the Certificates are also described below.*

*Each of the Trustee and the Bank believes that the factors described below represent the principal risks inherent in investing in the Certificates but the inability of the Trustee and the Bank to pay any amounts on or in connection with the Certificates and the Transaction Documents may occur for other reasons and neither the Trustee nor the Bank represents that the statements below regarding the risks of holding any Certificate are exhaustive.*

*Prospective investors should also read the detailed information set out elsewhere in this Prospectus and reach their own views prior to making any investment decision. Words and expressions defined in the Conditions and "Global Certificate" shall have the same meanings in this section.*

## FACTORS THAT MAY AFFECT THE TRUSTEE'S ABILITY TO FULFIL ITS OBLIGATIONS UNDER OR IN CONNECTION WITH THE CERTIFICATES

### The Trustee has no operating history and no material assets

The Trustee is an exempted company with limited liability incorporated under the laws of the Cayman Islands on 7 September 2020 and has no operating history. The Trustee has not as at the date of this Prospectus, and will not, engage in any business activity other than the issuance of the Certificates, the acquisition of the Trust Assets as described herein, acting in the capacity as Trustee and other activities incidental or related to the foregoing as required under the Transaction Documents.

The Trustee's only material assets, which will be held on trust for Certificateholders, will be the Trust Assets, including the right to receive amounts paid by the Mudareb under the Mudaraba Agreement. Therefore, the Trustee is subject to all the risks to which the Bank is subject to the extent that such risks could limit the Bank's ability to satisfy in full and on a timely basis its obligations under the Transaction Documents.

The Certificates represent limited recourse obligations of the Trustee and the recourse of the Certificateholders against the Trustee in relation to the Certificates is limited to the Trust Assets and the proceeds from the Trust Assets.

The ability of the Trustee to pay amounts due on the Certificates will be dependent upon receipt by the Trustee from the Bank of amounts to be paid under the Mudaraba Agreement (which in aggregate may not be sufficient to meet all claims under the Certificates and the Transaction Documents). See "*—Risks relating to the Bank and its ability to fulfil its obligations under the Transaction Documents*".

## RISKS RELATING TO THE BANK AND ITS ABILITY TO FULFIL ITS OBLIGATIONS UNDER THE TRANSACTION DOCUMENTS

### The Group is exposed to the credit risk of customers and other counterparties and anticipated future growth in, or deterioration in the quality of, the Group's Islamic financing to customers or investment securities portfolio could result in an increase in its credit risk profile

Risks arising from adverse changes in the credit quality and recoverability of finance facilities, securities and amounts due from counterparties are inherent in a wide range of the Group's businesses, principally in its financing and investment activities. In particular, the Group is exposed to the risk that customers may not pay amounts due under their Islamic finance facilities according to their contractual terms and that the collateral (if any) securing the payment of these finance facilities may be insufficient. The Group regularly reviews and analyses its Islamic financing to customers (its "**Islamic financing portfolio**") and credit risks, and the Group's provision for losses on its Islamic financing portfolio is based on, among other things, its analysis of current and historical delinquency rates and Islamic finance facilities management and the valuation of the underlying assets, as well as numerous other management assumptions. However, these internal analyses and assumptions may give rise to inaccurate predictions of credit performance, particularly in a volatile economic climate (see further "*Risk Factors – Risks Relating to the Bank and its Ability to Fulfil its Obligations under the Transaction Documents – The Group's risk management policies and procedures may not be effective in all circumstances and may leave it exposed to unidentified or unanticipated risks*").

As at 31 December 2020, the Group's Islamic financing portfolio amounted to KD 4.8 billion (compared to KD 3.8 billion as at 31 December 2019). The Group's provision for impairment in respect of its Islamic financing portfolio amounted to 2.6 per cent. as at 31 December 2020 (compared to 1.7 per cent. as at 31 December 2019).

The Group's strategy envisages that it will continue to grow its market share in Kuwait (see further "*Description of the Group – Strategy*"). As part of this growth strategy, the Group will continue to expand its Islamic financing portfolio which will, in turn, result in an increase in the Group's credit exposure. Consequently, the Group will need to continually monitor the credit quality of its Islamic financing portfolio. This will be particularly important in the light of current economic conditions in Kuwait. See also "*Risk Management – Principal Risks – Credit risk*" and "*Risk Factors – Risks Relating to the Bank and its Ability to Fulfil its Obligations under the Transaction Documents – The Group's risk management policies and procedures may not be effective in all circumstances and may leave it exposed to unidentified or unanticipated risks*".

Credit losses could also arise from a deterioration in the credit quality of specific customers and counterparties of the Group, from a general deterioration in local or global economic conditions, or from systemic risks within these financial systems, which could affect the recoverability and value of the Group's assets and require an increase in its provisions for the impairment of the Islamic financing portfolio, securities and other credit exposures.

Any failure by the Group to maintain the quality of its assets through effective risk management policies could lead to higher levels of defaults resulting in higher impairment provisioning and write-offs, which could have a material adverse effect on the Group's profitability.

### The outbreak of communicable diseases around the world, in particular the COVID-19 pandemic, has led to economic volatility, which may materially and adversely affect the Group's business, financial condition and results of operations

The outbreak of communicable diseases on a global scale may affect investment sentiment and result in sporadic volatility in global markets. The coronavirus known as COVID-19 was first identified in Wuhan, Hubei Province, China in late 2019. While the spread of COVID-19 has slowed in China, it has spread to many countries around the world. In March 2020, certain countries, including Kuwait, began imposing travel restrictions, social distancing and other restrictions, which aim to reduce in-person interactions. These measures, while designed to slow the spread of COVID-19, resulted in significant reductions in economic activity globally. To date, the COVID-19 pandemic has negatively impacted the global economy, lowered equity market valuations in many countries, created significant volatility and disruption in financial markets, decreased interest rates and increased unemployment levels, with global GDP contracting by 4.3 per cent. during 2020 according to data published by the World Bank.

The impact of the pandemic on the GCC region was relatively severe due to the resultant large drop in oil prices and concerns over excess oil production and its storage (see further "*Risk factors - Risks relating to the region in which the Group operates - The Group is exposed to volatility in international oil prices and sustained lower prices could materially adversely affect the Group's results of operations*").

Though some restrictive measures have been reduced in certain countries and economic activity has begun to recover in certain markets, it is currently unclear how long existing restrictions will be in place, the duration of possible future restrictions and what their ultimate impact will be on global and local economies.

The first COVID-19 case was confirmed in Kuwait on 24 February 2020 and was followed by a sequence of Government decisions starting with the closure of businesses on 9 March 2020 before escalating to a complete lockdown during the month of May 2020. Kuwait began a gradual re-opening of the economy in the beginning of June 2020 and as at the date of this Prospectus Kuwait is in phase four of the five-phased plan to return to normal activity. In response to the pandemic, the CBK initiated macro-prudential measures and reduced regulatory requirements in an effort to increase the banking sector's resilience and enable it to play a more active role throughout the crisis. These measures included lowering the banking sector's capital and liquidity requirements and dropping the CBK's discount rate to historically low levels which ultimately reached 1.5 per cent. on 16 March 2020. See "*Financial Review - Principal Factors Affecting Results of Operations - Impact of COVID-19 Pandemic*" and "*Risk Management – Response to COVID-19*" for more information on the CBK measures introduced and the steps taken by the Group following the outbreak of the pandemic.

However, the Group remains exposed to the risk of asset quality deterioration emanating from a "second wave" of elevated COVID-19 infection levels that could promote a return to stricter lockdown and social distancing measures. According to data published by the Kuwait Ministry of Health, as at 31 December 2020 there were 150,584 positive cases of COVID-19 in Kuwait. This increased to 165,257 positive cases during January 2021 and increased further in February 2021 to over 190,000 positive cases. In response to this, the Government announced new restrictions on 3 February 2021, including prohibiting non-Kuwaiti citizens, (with certain exceptions) from entering Kuwait for a period of 2 weeks, and ordering the closure of all retail stores (other than medical and food supplying outlets) and sport and recreation centres. Any asset quality deterioration would have a direct impact on the credit risk of the Group's wholesale financing portfolio.

The extent to which the COVID-19 pandemic impacts the Group's business, results of operations, and financial condition, as well as the Group's regulatory capital and liquidity ratios, will depend on future developments, which are highly uncertain and cannot be predicted, including the scope and duration of the pandemic and actions taken by governmental authorities and other third parties in response to the pandemic. The Group may be forced to consider adjustments to specific elements of its operations and/or customer exposures. Any material change in the financial markets, the Kuwaiti economy or the global economy as a result of these events or developments may have a material adverse effect on the Group's business, results of operations and financial condition.

**The Group's Islamic financing portfolio, investment securities portfolio and deposit base are concentrated in Kuwait, the MENA region and the UK**

The Group's Islamic financing portfolio and investment securities portfolio (including its portfolio of available for sale investments, funds and equity securities) together constituted KD 5.4 billion, or 84.6 per cent. of total assets, as at 31 December 2020 (compared to KD 4.2 billion, or 79.9 per cent. of total assets, as at 31 December 2019). As at 31 December 2020, 89.4 per cent. of the Group's Islamic financing portfolio was advanced to customers in the MENA region, principally in Kuwait (compared to 100.0 per cent. as at 31 December 2019), and 87.4 per cent. of the Group's maximum exposure to credit risk (including contingent liabilities) was concentrated in the MENA region, principally in Kuwait (compared to 97.8 per cent. as at 31 December 2019). Following the increase of the Bank's shareholding in BLME in 2020, 10.4 per cent. of the Group's Islamic financing portfolio was advanced to customers in the UK as at 31 December 2020 and 9.6 per cent. of the Group's maximum exposure to credit risk was concentrated in the UK (see also "*Description of the Group – Subsidiaries and Associates – Subsidiaries – BLME*").

In addition, as at 31 December 2020, the Group's investment securities portfolio principally comprised investment in Sukuk, with KD 403.2 million, or 77.1 per cent. of the investment in Sukuk, comprising exposure to MENA region issuers (compared to KD 280.3 million, or 91.5 per cent. of the investment in Sukuk, as at 31 December 2019) with the remaining 22.9 per cent. comprising exposure to issuers in the Asia region. These issuers were principally Kuwaiti and other governments.

The Group's depositors' accounts constituted KD 5.1 billion, or 87.9 per cent. of total liabilities, as at 31 December 2020 (compared to KD 4.3 billion, or 93.5 per cent. of total liabilities, as at 31 December 2019). In the year ending 31 December 2020, over 14.3 per cent. of the Group's depositors' accounts comprised deposits from the Government and its related agencies.

As a result, any deterioration in general economic conditions in Kuwait, the wider MENA region and the UK or any failure by the Group to manage effectively its geographic risk concentrations could have a material adverse effect on its business, financial condition, results of operations and prospects (see further "*Risk Factors – Risks Relating to the Bank and its Ability to Fulfil its Obligations under the Transaction Documents – The Group's business, financial condition, results of operations and prospects are affected by global and regional financial markets and economic conditions and any deterioration in economic conditions in Kuwait, the wider MENA region and the UK could materially adversely impact the Group*").

**The Group's business, financial condition, results of operations and prospects are affected by global and regional financial markets and economic conditions and any deterioration in economic conditions in Kuwait, the wider MENA region and the UK could materially adversely impact the Group**

There has been significant volatility and disruption in the global capital and credit markets since the onset of the global financial crisis in late 2007. In addition to this, investor confidence in international debt and equity markets (and, in turn, the performance of those markets) could be adversely impacted by recent political events. In particular, the UK's "leave" vote in the June 2016 referendum on its membership of the EU and the election of Donald J. Trump as President of the United States in 2016 resulted in periods of significant under and (as applicable) over performance in financial markets including, for example, the strong performance of U.S. equities in the period since the Trump administration came into office. Additionally, the impact of "Brexit" (including the UK's formal exit from the EU on 31 December 2020 following the end of the "Brexit" transition period) on the general political and macro-economic conditions in the UK and across the EU is expected to continue to be significant as the UK and the EU navigate the implementation and practicalities of the EU-UK Trade and Cooperation Agreement. In November 2020, Joseph R. Biden Jr was elected as President of the United States for the term 2021 to 2024 and was inaugurated in January 2021.

Given his limited time in office so far, any related impact of his policies on the global capital and credit markets remains unclear.

Movements in global interest rates have also continued to be unpredictable. The decision of the U.S. Federal Reserve to increase U.S. overnight interest rates between December 2015 and December 2018 by an aggregate 225 basis points (in nine separate increments of 25 basis points each) exacerbated the reduced liquidity environment and contributed to a prevailing mood of economic uncertainty. However, in 2019 the U.S. Federal Reserve decreased U.S. overnight interest rates by an aggregate 75 basis points (in three separate increments of 25 basis points each) and in March 2020 U.S. overnight interest rates were further cut to near zero in response to the COVID-19 outbreak.

The ongoing impact of COVID-19 on the global economy remains uncertain and, depending on the global infection rates and the measures implemented by governments in response to this, could lead to continued volatile market conditions (see further "*The outbreak of communicable diseases around the world, in particular the COVID-19 pandemic, has led to economic volatility, which may materially and adversely affect the Group's business, financial condition and results of operations*").

There has also been a material reduction in the availability of financing for financial institutions as well as their customers since 2007. As a result, many financial institutions have been compelled to rely on central banks and governments to provide liquidity and, in some cases, additional capital. Governments around the world, including in Kuwait and other countries in the MENA region, have taken actions intended to stabilise financial markets and prevent the failure of financial institutions (see further "*Overview of Banking and Finance Regulations in Kuwait*"). Despite such measures, international capital and credit markets have continued to experience volatility.

The business and results of operations of banks in Kuwait have been adversely affected by these conditions and the impact they had in Kuwait and other countries in the MENA region. In particular, many countries in the MENA region experienced significant declines in real estate prices and in stock exchange indices and these factors adversely affected companies engaged in the real estate sector (including developers, construction companies and others) and investment companies. The Kuwaiti property market has since experienced a period of recovery and stabilisation. However, as an increasing number of developments are launched and reach completion, the number of properties available in the Kuwaiti market may exceed the demand for such properties leading to saturation. This could result in an increase in vacancy rates and/or a decrease in market rental rates and sale prices. In addition, demand for properties in Kuwait could decrease as a result of a range of other factors, including changes in law, macroeconomic conditions, events in neighbouring countries or factors inherent to the Kuwaiti property market.

Continued slowdown in the global economic environment, together with any reduction in governmental spending and the likely impact on the level of economic activity in Kuwait and the wider MENA region, may cause the Group to experience reductions in business activity, increased funding costs and funding pressures, decreased asset values, increased credit losses and impairment charges, and lower profitability and cash flows. The Group's business and financial performance may also be adversely affected by future recovery rates on assets (including real estate and equity securities which it has accepted as security), particularly as the historical assumptions underlying asset recovery rates may prove to be inaccurate.

In addition, although economic conditions are different in each country in the MENA region, investors' reactions to developments in one country may affect the price of securities of issuers in other countries in the MENA region, including Kuwait. Accordingly, the market price of the Certificates may be subject to significant fluctuations, which may not necessarily be related to the financial performance of the Group (see further "*Risks Factors – Risks relating to the region in which the Group operates*").

**The Group has significant customer and sector concentrations**

As at 31 December 2020, the Group's 20 largest outstanding Islamic financing to customers constituted 21.5 per cent. of the Group's gross Islamic financing portfolio (compared to 24.2 per cent. as at 31 December 2019). Further, although diversified by industry sector, the Group's highest sector concentration is in the retail sector which accounted for 29.0 per cent. and the construction and real estate sectors which accounted for 26.1 per cent., respectively, of the Group's financial assets as at 31 December 2020, before taking into account any collateral held or credit enhancements (compared to 31.4 per cent. for the retail sector and 21.6 per cent. for the construction and real estate sectors as at 31 December 2019).

In the year ending 31 December 2020, over 14.3 per cent. of the Group's depositors' accounts comprised deposits from the Government and its related agencies. In addition, as at 31 December 2020, the Group's 20 largest depositors' accounts constituted 33.1 per cent. of the Group's total depositors' accounts (compared to 43.3 per cent. as at 31 December 2019).

As a result, a material weakening in the credit quality of, or a default by, any one or more of the Group's large Islamic financing to customers or issuers of the investment-related financing held by the Group, or any factors which negatively impact the sectors to which the Group has significant exposure, could result in the Group making significant additional impairment provisions and experiencing reduced income from its Islamic financing portfolio. For instance: (i) a significant decline in real estate values may weaken the credit quality of the Group's construction and real estate customers to the extent that the value of their real estate assets declines and could also reduce the value of the real estate collateral which the Group holds; and (ii) continued low levels of economic growth or a recession in Kuwait which, particularly if coupled with increased levels of unemployment and falling house prices, could materially adversely impact the ability of retail customers to repay the Islamic financings provided to them and, as a result, could also similarly adversely impact the liquidity and profitability of the Group's financial institution customers.

If the property market in Kuwait were to become saturated, or demand for properties in Kuwait were to decline or to be lower than expected, this could negatively impact the value of the collateral held by the Group in respect of a significant proportion of its Islamic financing portfolio which could lead to an increase in the Group's impairment provisions and reduced profitability. In addition, a large portion of the Group's customers purchase properties as investments, generally with a view to selling them for profit or leasing them for rental income. Any perceived or actual oversupply of properties in Kuwait, or a decrease in demand for rental space in Kuwait, may result in potential customers having experienced or experiencing difficulty in selling properties provided as collateral to the Group, either for an expected profit or for no profit at all. In addition, any perceived or actual oversupply of rental space in Kuwait or a decrease in demand for such rental space, for either commercial or residential properties, may cause rental rates to decline. This could result in a decrease in demand for the Group's customers' properties among customers who expect to receive revenue from the part-time rental of their properties or who purchase properties for the explicit purpose of rental and, consequently, impact such customers' ability to make payments on their financing in a timely manner. This, in turn, could also lead to an increase in the Group's impairment provisions and reduced profitability.

Similarly, the withdrawal or non-renewal of its deposits by any one or more of the Group's large depositors could require the Group to obtain replacement funding from other sources which may not be readily available or may be significantly more expensive which, in turn, would reduce the Group's net profit rate margin and adversely affect the Group's operating income and profitability (see further "*Risk Factors – Risks Relating to the Bank and its Ability to Fulfil its Obligations under the Transaction Documents – 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 results of operations*").

**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 results of operations**

Liquidity risk is the risk that the Group will be unable to meet its obligations, including funding commitments, as they become due. This risk is inherent in banking operations and can be heightened by a number of enterprise-specific factors, including over-reliance on a particular source of funding (including, for example, short-term and overnight funding), changes in credit ratings or market-wide phenomena such as market dislocation and major disasters. Credit markets worldwide experienced a severe reduction in liquidity in the final quarter of 2008 and the first half of 2009. Since then, market conditions have been volatile with financial institutions continuing to experience periods of reduced liquidity.

The perception of counterparty risk between banks has also increased significantly since the final quarter of 2008, which led to reductions in certain traditional sources of liquidity, such as the debt markets, asset sales and redemption of investments. The Group's access to these traditional sources of liquidity may be restricted or available only at a higher cost and there can be no assurance that the Government will continue to provide the levels of support that it has provided to date to the Kuwaiti banking sector (see further "*Risk Factors – Risks Relating to the Bank and its Ability to Fulfil its Obligations under the Transaction Documents – The Government is under no obligation to support the Group and there is no assurance that the Group will receive future support that is commensurate with the support that it has received in the past*").

In addition, uncertainty or volatility in the capital and credit markets may limit the Group's ability to refinance maturing liabilities with long-term funding or may increase the cost to the Group of such funding. The Group's access to any additional financing it may need will depend on a variety of factors, including market conditions, the availability of credit generally and to customers in the financial services industry specifically, and the Group's financial condition, credit ratings and credit capacity.

The Group relies on both customer and interbank deposits, as well as deposits from the Government and its related agencies, to meet most of its funding needs. The availability of deposits is subject to fluctuation due to factors outside the Group's control, including possible loss of confidence and competitive pressures, and this could result in a significant outflow of deposits within a short period of time. As at 31 December 2020, 70.7 per cent. of the Group's non-equity funding (which comprises amounts due to banks, depositors' accounts, medium term financing and other liabilities) had remaining contractual maturities of up to three months or was payable on demand (compared to 72.8 per cent. as at 31 December 2019) and 88.5 per cent. had remaining maturities of one year or less (compared to 96.3 per cent. as at 31 December 2019). The Group may experience outflows of deposits at times when liquidity is constrained generally in Kuwait or when its major depositors experience short- or longer-term liquidity requirements. In addition, the Group's deposits are predominantly concentrated in Kuwait and the Group is reliant on certain large deposits from a limited number of government-related and private sector corporate customers (see further "*Risk Factors – Risks Relating to the Bank and its Ability to Fulfil its Obligations under the Transaction Documents – The Group's Islamic financing portfolio, investment securities portfolio and deposit base are concentrated in Kuwait, the MENA region and the UK*" and "*Risk Factors – Risks Relating to the Bank and its Ability to Fulfil its Obligations under the Transaction Documents – The Group has significant customer and sector concentrations*").

If a substantial portion of the Group's depositors, or any of its largest depositors, withdraw their demand deposits or do not roll over their time deposits at maturity, the Group may need to seek other sources of funding or may have to sell, or enter into sale and repurchase or securitisation transactions over, certain of its assets to meet its funding requirements. There can be no assurance that the Group will be able to obtain additional funding as and when required or at prices that will not affect its ability to compete effectively and, if the Group is forced to sell assets to meet its funding requirements, it may suffer material losses as a result.

In extreme cases, if the Group is unable to refinance or replace such deposits with alternative sources of funding to meet its liquidity needs, through other deposits, the interbank markets, the international capital markets or through asset sales, this would have a material adverse effect on its business, financial condition, results of operations and prospects.

### A negative change in the Bank's credit rating could limit its ability to raise funding and may increase its funding costs

The Bank has a long-term issuer default rating of A+ with a negative outlook from Fitch, a long-term counterparty risk rating of A2 and a long-term deposit rating of A3 with a stable outlook from Moody's, and a long-term issuer credit rating of A- with a stable outlook from Standard & Poor's. These ratings, which are intended to measure the Bank's ability to meet its financing obligations as they mature, are an important factor in determining the Bank's cost of funding.

There can be no assurance that the ratings will remain in effect for any given period of time or that the ratings will not be lowered or withdrawn entirely if circumstances in the future so warrant. A downgrade of the Bank's credit ratings, or a negative change in their outlook, may: (i) limit the Bank's or any member of the Group's ability to raise funding; (ii) increase the Bank's or any member of the Group's cost of funding; and (iii) limit the Bank's or any member of the Group's ability to raise capital, each of which could adversely affect its business, financial condition, results of operations and prospects. Moreover, actual or anticipated changes in the Bank's credit rating may negatively affect the market value of the Certificates.

According to each of Fitch, Moody's and Standard & Poor's, a significant factor underpinning the Bank's ratings is their assessment that there is an extremely high probability of support for the Bank from the Kuwaiti authorities or by National Bank of Kuwait S.A.K.P ("**NBK**") (see further "*Risk Factors – Risks Relating to the Bank and its Ability to Fulfil its Obligations under the Transaction Documents – The Government is under no obligation to support the Group and there is no assurance that the Group will receive future support that is commensurate with the support that it has received in the past*" and "*Risk Factors – Risks Relating to the Bank and its Ability to Fulfil its Obligations under the Transaction Documents – The NBK Group exerts significant control over the Group and its interests may conflict with those of Certificateholders and/or of the Group itself*").

Any event that causes Fitch, Moody's or Standard & Poor's or any other applicable rating agency in the future to adjust such view would be likely to result in a negative change in the Bank's rating.

In addition, the credit ratings assigned to the Bank may not reflect the potential impact of all risks related to an investment in the Certificates. Other factors including the market and additional factors discussed in this Prospectus may also affect the value of the Certificates. A security rating is not a recommendation to buy, sell or hold securities. Ratings may be subject to revision or withdrawal at any time by the assigning rating organisation and each rating should be evaluated independently of any other rating.

### Although the Group currently has strong capital ratios, it may need to raise further capital in the future for a variety of reasons and such capital may be difficult to raise when needed

As at 31 December 2020, the Group's common equity tier 1 ("**CET1**") capital adequacy ratio was 13.7 per cent. (compared to 16.8 per cent. as at 31 December 2019) while, as at the same date, the Group's total capital adequacy ratio was 16.9 per cent. (compared to 20.3 per cent. as at 31 December 2019). As at 31 December 2020 and 31 December 2019, the CBK required Kuwaiti banks to maintain a CET1 capital adequacy ratio and total capital adequacy ratio of at least 9.5 per cent. and 13.0 per cent., respectively. Pursuant to a letter dated 28 March 2016, the CBK informed the Bank that it had designated the Bank as a domestic systemically important bank ("**D-SIB**") in Kuwait. Following its designation as a D-SIB, the Bank was required to comply with an additional capital requirement comprised of CET1 at a rate of 0.5 per cent. by 31 December 2016, bringing the total minimum capital requirement applicable to the Bank as at that date to 13.5 per cent. (which includes a capital conservation buffer). The CBK has advised the Bank that the results of the study conducted by the CBK in identifying D-SIBs are subject to periodic review and that the Bank will be informed by the CBK should there be any change to the capital buffer requirements applicable to the Bank. Given the current high capital adequacy of the Group, the Group continues to meet all regulatory capital requirements, even under severe stress test scenarios. For further information regarding calculation methodology as well as CBK instructions regarding capital adequacy, see "*Overview of Banking and Finance Regulations in Kuwait – Certain Banking Regulations*".

A variety of factors may affect the Group's capital adequacy levels, including, in particular, changes in its risk-weighted assets and its profitability from one period to another. For example, a significant increase in financing in the future is likely to reduce the Group's capital adequacy ratios and any losses experienced by it in future periods would have a similar effect. In addition, regulatory requirements in relation to the calculation of capital adequacy and required levels of capital adequacy may change from time to time, including as a result of new guidelines issued by the Basel Committee on Banking Supervision (the "**Basel Committee**"). The Group may also need to increase its capital as a result of market perceptions of adequate capitalisation levels and the perceptions of rating agencies.

As a result, the Group may need to obtain additional capital in the future. Such capital, whether in the form of Islamic borrowing or additional equity, may not be available on commercially favourable terms, or at all. Moreover, should the Group's capital ratios fall close to regulatory minimum levels or the Group's own internal minimum levels, the Group may need to adjust its business practices, including reducing the risk and leverage of certain activities or undertaking asset disposals. If the Group is unable to maintain satisfactory capital adequacy ratios, its credit ratings may be lowered and its cost of funding may therefore increase. The Group may also become subject to regulatory sanctions. Any of these factors could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

### The Group's financial condition and results of operations could be adversely affected by market risks

The Group's financial condition and results of operations could be adversely affected by market risks that are outside its control, including, without limitation, currency exchange rates (see further "*Financial Review – Principal Factors Affecting Results of Operations – Factors affecting net income from Islamic financing to customers*").

As a financial intermediary, the Group is exposed to foreign exchange rate risk. This risk includes the possibility that the value of a foreign currency asset or liability will change due to changes in currency exchange rates as well as the possibility that the Group may have to close out any open position in a foreign currency at a loss due to an adverse movement in exchange rates. The Group attempts to match the currencies of its assets and liabilities and any open currency position is maintained within the limits set by the CBK. However, where the Group is not so hedged, it is exposed to fluctuations in foreign exchange rates and any such hedging activity may not in all cases protect the Group against such risks (see further Note 32.4 (*Foreign currency risk*) to the 2020 Financial Statements).

The Group enters into derivative transactions, such as forward foreign exchange contracts, to manage its foreign currency positions and cash flows. These derivative contracts had a notional value of KD 20.4 million as at 31 December 2020 and no notional value as at 31 December 2019. There can be no assurance that the Group's derivative contracts will be successful in mitigating its foreign exchange exposures or that the Group will not experience significant losses on its derivatives contracts from time to time.

Adverse movements in foreign exchange rates may also adversely impact the revenues and financial condition of the Group's depositors and customers which, in turn, may impact the Group's deposit base and the quality of its exposures to certain customers.

Ultimately, there can be no assurance that the Group will be able to protect itself from any adverse effects of a currency revaluation or future volatility in currency exchange rates, which could have a material adverse effect on its business, financial condition, results of operations and prospects.

**The Group is subject to extensive regulation and changes in this regulation, or the interpretation and enforcement of this regulation, or any failure, or perceived failure, by the Group to comply with this regulation could have a material adverse effect on the Group**

The Group is subject to a number of prudential and regulatory controls designed to maintain the safety and soundness of banks, ensure their compliance with economic and other objectives and limit their exposure to risk. These controls include laws and regulations promulgated by the CBK, the CMA and Boursa Kuwait and are further described under "*Overview of Banking and Finance Regulations in Kuwait*".

The regulations to which the Group is subject may limit its ability to carry on certain parts of its business, to increase its Islamic financing portfolio or to raise capital and may also increase its cost of doing business. In addition, increased regulations or changes in applicable laws and regulations and the manner in which they are interpreted or enforced in Kuwait may impose significant additional compliance costs on the Group. Furthermore, non-compliance by the Group with any applicable regulations could expose it to potential liabilities and fines, which may be significant.

In order to carry out and expand its businesses, it is necessary for the Group to maintain or obtain a variety of licences, permits, approvals and consents from various regulatory, legal, administrative, tax and other governmental authorities and agencies. The processes for obtaining these licences, permits, approvals and consents are often lengthy, complex, unpredictable and costly. If the Group is unable to maintain or obtain the relevant licences, permits, approvals and consents, its ability to achieve its strategic objectives could be impaired.

The Group is also required to comply with applicable know your customer, anti-money laundering and counter-terrorism financing laws and regulations in Kuwait and other jurisdictions where it operates, including those related to countries subject to sanctions by the United States Office of Foreign Assets Control, similar regulations of the European Union and other jurisdictions, and applicable anti-corruption laws in the jurisdictions in which it conducts business. To the extent that the Group fails or is perceived to fail to comply with these and other applicable laws and regulations, its reputation could be materially damaged and it could be subject to fines or other monetary penalties, with consequent adverse effects on its business, financial condition, results of operations and prospects.

**The Group could be adversely affected by the soundness or the perceived soundness of other financial institutions and counterparties**

Against the backdrop of constraints on liquidity and the high cost of funds in the interbank lending market, and given the high level of interdependence between financial institutions that became most evident following the bankruptcy of Lehman Brothers in 2008, the Group is subject to the risk of deterioration in the commercial and financial soundness, or perceived soundness, of other financial institutions. Within the financial services industry, the default of any one institution could lead to significant losses, and potentially defaults, by other institutions. As was experienced in 2008 and 2009, concerns about, or a default by, one institution could also lead to significant liquidity problems, losses or defaults by other institutions, because the commercial and financial soundness of many financial institutions is closely related as a result of their credit, trading, clearing or other relationships. Even the perceived lack of creditworthiness of, or questions about, a counterparty may lead to market-wide liquidity problems and losses or defaults by the Group or other institutions. This risk, often referred to as "systemic risk", may also adversely affect other financial intermediaries, such as clearing agencies, clearing houses, securities firms and exchanges, with whom the Group interacts on a daily basis. Systemic risk, should it materialise, could have a material adverse effect on the Group's ability to raise new funding and on its business, financial condition, results of operations and prospects.

**The banking industry is competitive and the Group is exposed to significant competition in Kuwait**

The Group faces high levels of competition for all of its products and services in Kuwait. In particular, the Group competes with other domestic Islamic banks and such competition may increase (see further "*Description of the Group – Competition in Kuwait*"). The Group believes that, in order to compete effectively, it will need to successfully implement its strategy (see further "*Description of the Group – Strategy*").

Any failure by the Group to successfully implement its strategy in the coming years could negatively affect its competitive position in the markets in which it operates which could result in reduced income or a failure to achieve anticipated levels of income.

**The Group is exposed to a range of operational risks including, in particular, the risk of loss as a result of employee misrepresentation, misconduct and improper practice and through any failure of the Group's information technology systems**

Operational risk and losses can result from fraud, errors by employees, failure to document transactions properly or to obtain proper internal authorisation, failure to comply with regulatory requirements and conduct of business rules, systems and equipment failures (including, in particular, information technology ("**IT**") failures), natural disasters or the failure of external systems (for example, those of the Group's counterparties or vendors). The Group has implemented risk controls and loss mitigation strategies, and substantial resources are devoted to developing efficient procedures and to staff training, but it is not possible to eliminate entirely each of the potential operational risks that the Group faces. Losses from the failure of the Group's system of internal controls could have a material adverse effect on its business, financial condition, results of operations and prospects and could materially adversely affect its reputation.

The Group's employees could engage in misrepresentation, misconduct or improper practice that could expose the Group to direct and indirect financial loss and damage to its reputation. Such practices may include embezzling clients' funds, engaging in corrupt or illegal practices to originate further business, intentionally or inadvertently releasing confidential information about clients or failing to follow internal procedures. It is not always possible to detect or deter employee misconduct, and the precautions which the Group takes to detect and prevent misconduct may not be effective in all cases. There can be no assurance that measures undertaken to combat employee misconduct will be successful. Any such actions by employees could expose the Group to financial losses resulting from the need to reimburse clients, co-investors or other business partners who suffered loss or as a result of fines or other regulatory sanctions, and could damage the Group's reputation.

The Group depends on its IT systems to process a large number of transactions on an accurate and timely basis, and to store and process substantially all of the Group's business and operating data. The proper functioning of the Group's financial control, risk management, credit analysis and reporting, accounting, customer service and other IT systems, as well as the communication networks between its branches and main data processing centres, are critical to the Group's business and ability to compete effectively. The Group's business activities would be materially disrupted if there is a partial or complete failure of any of these IT systems or communications networks. Such failures can be caused by a variety of factors, many of which are wholly or partially outside the Group's control, including natural disasters, extended power outages, computer viruses and malicious third party intrusions. The proper functioning of the Group's IT systems also depends on accurate and reliable data and other system input, which are subject to human errors. Any failure or delay in recording or processing the Group's transaction data could subject it to claims for losses and regulatory fines and penalties. The Group has implemented business continuity plans and processes as well as disaster recovery procedures, but there can be no assurance that these safeguards will be fully effective at all times or that they will protect the Group from all losses that could occur, including as a result of factors beyond the control of the Group.

In particular, failure to adequately manage cyber-security risk and continually review and update current processes in response to new threats could, if a cyber-attack occurs, result in disruption to the Group's business or disclosure of confidential information, create significant financial and/or legal exposure and damage the Group's reputation.

**The Group's risk management policies and procedures may not be effective in all circumstances and may leave it exposed to unidentified or unanticipated risks**

There can be no assurance that the Group's risk management and internal control policies and procedures will adequately control, or protect it against, all credit, liquidity, market, operational and other risks. In addition, certain risks may not be accurately quantified by the Group's risk management systems. Some of the Group's methods of managing risk are based upon the use of historical market data which, as evidenced by events caused by the global financial crisis, may not always accurately predict future risk exposures which could be significantly greater than historical measures indicate. In addition, certain risks could be greater than the Group's empirical data would otherwise indicate.

Other risk management methods depend upon the evaluation of information regarding the markets in which the Group operates, its clients or other matters that are publicly available or information otherwise accessible to it. This information may not be accurate, complete, up to date or properly evaluated in all cases. Any material deficiency in the Group's risk management or other internal control policies or procedures may expose it to significant credit, liquidity, market or operational risk, which may in turn have a material adverse effect on its business, financial condition, results of operations and prospects.

**The NBK Group exerts significant control over the Group and its interests may conflict with those of Certificateholders and/or of the Group itself**

As at the date of this Prospectus, the NBK group (the "**NBK Group**") is the Bank's majority shareholder and holds 59.9 per cent. of the Bank's outstanding voting shares. The NBK Group, as a majority shareholder of the Bank, has the right to appoint and remove members of the Bank's board of directors (the "**Board**"). Even if the NBK Group ceases to be a majority shareholder of the Bank, the NBK Group would still be able to appoint Board members *pro rata* to the number of shares it holds, with the remaining members of the Board being elected by the general assembly of the Bank's shareholders. Notwithstanding its ability to appoint a number of Board members, the NBK Group does not have any direct legal control over the directors and management of the Bank.

As a result of its shareholding, the NBK Group has the ability to exercise indirect control over, among other things: (i) the election of the Group's directors and, in turn, selection of the Group's management and any related business policies and strategies; (ii) the Group's budget approval; and (iii) the issuance of debt or equity and other securities.

The interests of the NBK Group and the Certificateholders may not necessarily align. There can be no assurance that the resolution of any matter, involving the interests of the NBK Group, will be resolved in what Certificateholders would consider to be their best interests or the best interests of the Group. The NBK Group is able to exercise significant influence over all matters requiring shareholder approval and it may use its influence over the Group to pursue its own interests. If such interests do not coincide with the interests of the Group and the Certificateholders, this could have a material adverse effect on the Group's business, financial condition, results of operations or prospects and/or the Bank's ability to fulfil its obligations under the Transaction Documents.

**The Group may not be able to recruit and retain qualified and experienced personnel, which could have an adverse effect on its business and its ability to implement its strategy**

The Group'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 and management personnel. The market for such personnel in the Middle East is intensely competitive, and includes competition from the Government and Government-related entities, which may cause the Group to face challenges in recruiting and retaining such personnel to manage its businesses.

The Group depends on the efforts, skill, reputation and experience of its executive management, as well as synergies among their diverse fields of expertise and knowledge. The loss of key personnel could delay or prevent the Group from implementing its strategies. The Group is also not insured against losses that may be incurred in the event of the loss of any member of its key personnel. Any of these factors could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

**The Government is under no obligation to support the Group and there is no assurance that the Group will receive future support**

In light of the global financial crisis and its impact on the Kuwaiti banking sector, the Government initiated plans to support its domestic banks. Although the Government has in the past supported the domestic banking industry, there can be no assurance that it will continue to provide support to the domestic banking industry in the future. Potential investors in the Certificates should note that the Certificates are not guaranteed by the Government, any of the Bank's shareholders or any other party.

## RISKS RELATING TO THE REGION IN WHICH THE GROUP OPERATES

**The Group is exposed to volatility in international oil prices and sustained lower prices could materially adversely affect the Group's results of operations**

The Group's operations are focused in Kuwait. For the year ended 31 December 2020, 90.9 per cent. of the Group's operating income was derived from its operations in Kuwait (compared to 88.2 per cent. for the year ended 31 December 2019) while, as at 31 December 2020,78.5 per cent. of the Group's maximum exposure to credit risk (including contingent liabilities) was concentrated in Kuwait, with a further 8.9 per cent. concentrated in the other MENA countries (compared to 86.2 per cent. concentration in Kuwait and 11.6 per cent. concentration in the other MENA countries, in each case, as at 31 December 2019).

Kuwait's economy and the economies of the other countries in the GCC are dependent on oil and gas and related industries, as well as the prices and production quantities of these commodities. Oil prices have, however, been volatile in recent years, which has impacted economic growth in Kuwait. Between July 2014 and January 2016, international crude oil prices declined dramatically (falling by approximately 75.0 per cent. from a high monthly average OPEC Reference Basket price per barrel of U.S.$107.89 in July 2014, to a monthly average price of U.S.$26.50 in January 2016). There was a partial correction in global crude oil prices through 2016 to 2019 (according to the OPEC website, the average price of the OPEC Reference Basket was approximately U.S.$40.76 per barrel for the year ended 31 December 2016, approximately U.S.$52.43 per barrel for the year ended 31 December 2017, approximately U.S.$69.78 per barrel for the year ended 31 December 2018 and approximately U.S.$64.04 per barrel for the year ended 31 December 2019).

However, the OPEC Reference Basket price fell during 2020. In early March 2020, OPEC officials proposed a plan to the members of OPEC and other non-OPEC member countries, including Russia, to cut global production by 1.5 per cent. No agreement was reached, ending a three-year partnership between OPEC and major non-OPEC oil exporters. This also resulted in "OPEC plus" failing to extend the agreement of cutting 2.1 million barrels per day that was set to expire at the end of March 2020. In March 2020, Saudi Arabia announced that it would raise oil output and discount its oil in April 2020. In early April 2020, "OPEC plus" announced that it had reached an agreement to cut production by 9.7 million barrels a day, however this action failed to support sufficiently the oil market and prices fell in the days following that announcement. As a result of the above factors and the COVID-19 outbreak weakening the demand for oil, the OPEC Reference Basket price fell significantly and, as at 1 May 2020, the OPEC Reference Basket price was U.S.$16.52. Furthermore, certain oil prices turned negative during April 2020 (with the West Texas Intermediate benchmark falling as low as minus U.S.$37.63 a barrel), as weakened demand as a result of the COVID-19 outbreak led to buyers being paid to take oil due to storage capacity concerns. However, in June 2020, OPEC and Russia agreed to extend their oil production cuts for an additional month until the end of July 2020 following an increase in the OPEC Reference Basket price to U.S.$33.69 as at 1 June 2020. According to the OPEC website, the average price of the OPEC Reference Basket was approximately U.S.$41.47 per barrel for the year ended 31 December 2020. However, in January 2021, OPEC and Russia agreed to a slight easing of the oil production cuts by 500,000 barrels per day and in February 2021 the OPEC Reference Basket reached a monthly average of U.S.$61.04.

The volatility in oil prices since 2014 has affected the economies of the oil-revenue dependent MENA countries, with greater budget deficits, a decrease in fiscal revenues and consequent lower public spending seen between 2016 and 2018. Government fiscal deficits have resulted in weakened net asset positions, larger external financing needs and continued lower government spending. This has resulted in the downgrading, or placing on "creditwatch", of a number of GCC sovereigns including, particularly, the Kingdom of Bahrain and the Sultanate of Oman.

Potential investors should note the significance of changes in international oil prices on Kuwait's economy. Many of Kuwait's other economic sectors are in part dependent on the oil and gas sector. The Government has reduced, and may continue to reduce, government expenditures in light of the budgetary pressures caused by low or falling oil prices. Government fiscal deficits are likely to result in a weakened net asset position, larger external financing needs and/or continued lower government spending. In addition, ancillary industrial activities related to oil and gas exploration and production are also negatively affected by low oil prices. Furthermore, sectors that are dependent on government consumption may be adversely affected by lower levels of economic activity that may result from lower government revenue from oil production.

Financial institutions, such as the Bank, may experience lower liquidity or impairments if government expenditure in Kuwait continues to be constrained as a result of budgetary pressures caused by relatively low oil prices. Should international oil prices continue to remain at current levels for an extended period or fall significantly, this will be likely to continue to adversely affect Kuwait's economy. Additionally, although the CBK has the ability to offset the components of the undisclosed weighted basket of international currencies of Kuwait's major trade and financial partner countries against which the dinar is pegged (the "**KD Basket**"), there can be no assurance that the CBK will maintain the KD Basket at its current level, which could lead to higher inflation and negatively affect confidence in Kuwait's economy.

This, coupled with political and economic developments both within and outside the Middle East (which are known to have a significant impact on the volatile prices of oil and other hydrocarbon products due to changes in market confidence and inter-relationships within the global financial markets) and the implementation by the Government of restrictive fiscal or monetary policies or regulations (including changes with respect to interest rates, new legal interpretations of existing regulations or the introduction of taxation or exchange controls) could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

### The Group's business may be impacted by ongoing unrest in the Middle East

Many of the Group's customers are, and a significant part of its business is, based in Kuwait. The Group intends to continue to focus on growing its business in Kuwait in the near future. Since the beginning of 2011, there has been political unrest in a range of countries that are located in the same region as Kuwait, including Syria, Iraq, Egypt, Turkey, Bahrain, Algeria, Libya, Iran, Lebanon, Jordan, Palestine, Tunisia, the Republic of Sudan, Somalia and Yemen. This unrest, which has ranged from public demonstrations to, in extreme cases, armed conflict and civil war, has led to the collapse of political regimes in Tunisia, Egypt and Libya and civil war and armed conflict in Syria, Libya, Iraq and Yemen. It has also given rise to significantly increased political uncertainty across the region. This situation has caused significant disruption to the economies of affected countries and has had a destabilising effect on international oil and gas prices. There remain ongoing tensions between the United States and Iran, which were heightened in January 2020 following the killing of Iranian General Qasem Soleimani by a United States drone strike and retaliatory attacks by Iran on United States military bases in the Republic of Iraq. Additionally, in June 2017, a number of MENA countries, including the Kingdom of Saudi Arabia, the United Arab Emirates, the Kingdom of Bahrain and Egypt, severed diplomatic relations with the State of Qatar, citing its alleged support for terrorism and accusing the State of Qatar of creating instability in the region. The termination of diplomatic relations included the withdrawal of ambassadors and imposing trade and travel bans. The three year embargo came to an end in January 2021 with diplomatic relations with the State of Qatar being reinstated following the signing of the Al Ula Agreement by the United Arab Emirates, the Kingdom of Saudi Arabia, the State of Qatar, the Kingdom of Bahrain, Kuwait, Oman and Egypt.

Wars, acts of terrorism and uncertain political or economic prospects or instability in Kuwait or the wider MENA region may adversely impact regional financial markets and the Group's business. Any renewed protests in the MENA region could lead to significant political uncertainty. Financial market and political uncertainty in the MENA region could decrease the Group's depositors' accounts or its customers' demand for Islamic financing facilities or other products offered by the Group. Continued instability in the MENA region could impact the Group's MENA-based operations and investments and could materially impact the financial prospects and condition of its MENA-based customers. These factors could result in decreased asset values and increased provisions for the Group. Such instability could also negatively affect the value of the Group's investments in affected countries.

### Rising inflation, or deflation, may adversely affect the Group's profitability

Kuwait has, at times since 1990, experienced both high levels of inflation and short periods of deflation. High inflation could slow the rate of economic growth and consumer spending in Kuwait. A deflationary environment in Kuwait could also adversely affect the Group's profitability by adversely affecting property values, which could have an adverse effect on the Group's real estate financing portfolio. There can be no assurance that the Government and the CBK will be able to achieve or maintain price stability, in the real estate market or otherwise and thus control inflation. High inflation could impact consumer and government spending which may result in a slowdown in the business environment in Kuwait which, in turn, could potentially impact the credit risk position of the Group. Similarly, deflation could reduce cash flows of the Group's customers which, in turn, may impact their ability to make payments to the Group when due. Deflation could also reduce the Group's profit rate margins due to a low rate environment.

### Kuwait may introduce VAT

Although Kuwait does not currently impose value-added tax ("**VAT**") on the sale of goods or services, there is a risk that this may change. Investors should be aware that the GCC states, including Kuwait, have agreed to the implementation of a GCC-wide VAT framework, to be introduced at a rate of 5 per cent. (the "**Framework**"). The national legislation in Kuwait implementing the Framework is yet to be promulgated and no Kuwait-specific details of the regime have been released as at the date of this Prospectus. Therefore, although the Kuwait parliament has indicated that it will postpone its introduction of VAT until 2021, it is impossible to state with any accuracy if, and when, VAT will be introduced in Kuwait, and the terms and conditions of such VAT.

Furthermore, the introduction of VAT could have a more widespread economic impact, for example, reducing the levels of disposable income of the Group's customers which could negatively impact demand for the Group's services.

#### Kuwait may introduce corporate income tax

As a matter of practice, though not codified law, the Group is currently not subject to corporate income tax on its earnings within Kuwait, although there is no guarantee that this will continue to be the case. On 14 March 2016, the Kuwait Cabinet of Ministers approved plans to implement a corporate tax of 10 per cent. on the annual profits of Kuwaiti incorporated entities (the "**Proposed Corporate Income Tax**"), which may be applicable to the Group for future financial years. As at the date of this Prospectus, the Proposed Corporate Income Tax does not have the force of law until such time as it has been ratified by the Kuwaiti Parliament, signed by the Emir and published in the Official Gazette. It is currently uncertain as to whether the Proposed Corporate Income Tax will be promulgated into law in the form in which it has been proposed by the Cabinet of Ministers, or at all.

If the Kuwaiti authorities impose new tax regimes on the Group (whether in the form of the Proposed Corporate Income Tax or otherwise), or introduce any other changes in tax laws which make doing business in Kuwait less attractive, this may have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

#### Kuwait and other GCC legal systems continue to develop and this may create an uncertain environment for investment and business activity

Kuwait and the other GCC countries are in various stages of developing legal and regulatory institutions that are characteristic of more developed markets. As a result, procedural safeguards as well as formal regulations and laws may not be applied consistently. In some circumstances it may not be possible to obtain the legal remedies provided under the relevant laws and regulations in a timely manner.

As the legal environment remains subject to continuous development, investors in Kuwait and the other GCC countries may face uncertainty as to the security of their investments. Any unexpected changes in the legal systems in Kuwait and the other GCC countries may have a material adverse effect on the rights of Certificateholders or on the investments that the Group has made or may make in the future, which may in turn have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

## RISKS RELATING TO THE CERTIFICATES

### Certificateholders' right to receive payment of the face amount of the Certificates and the Certificateholders' right to any profit will be cancelled or permanently written-down (in whole or in part) upon the occurrence of a Non-Viability Event

If a Non-Viability Event (as defined in the Conditions) occurs, the Certificates will be cancelled (in the case of a Write-down in whole) or written-down in part on a *pro rata* basis (in the case of a Write-down in part) by the Trustee in accordance with the Conditions and the prevailing Capital Regulations and all rights of any Certificateholder for payment of any amounts under or in respect of the Certificates (including, without limitation, any amounts arising as a result of, or due and payable upon the occurrence of, a Bank Event (as defined in the Conditions)) shall, as the case may be, be cancelled or written-down *pro rata* among the Certificateholders and, in each case, not restored under any circumstances, irrespective of whether such amounts have become due and payable prior to the date of the Non-Viability Event or notice in relation thereto and even if the Non-Viability Event has ceased. Further, whilst it is intended that the ordinary shares of the Bank should absorb losses prior to the Certificates, a Write-down in full or in part of the Certificates could occur prior to the ordinary shares of the Bank absorbing losses in full. A Write-down shall not constitute a Dissolution Event. As a result, Certificateholders will lose the entire amount or, as the case may be, a material amount, of their investment in the Certificates. Investors should also be aware that the application of a non-viability loss absorption feature similar to Condition 11 (*Write-down at the Point of Non-Viability*) has not been tested in Kuwait and therefore some degree of uncertainty may exist in its application.

**The circumstances triggering a Write-down are unpredictable**

The occurrence of a Non-Viability Event is inherently unpredictable and depends on a number of factors, many of which are outside of the Bank's control. The occurrence of a Non-Viability Event is subject to, *inter alia*, a subjective determination by the Financial Regulator (as defined in the Conditions). As a result, the Financial Regulator may require a Write-down in circumstances that are beyond the control of the Bank and with which the Bank may not agree. See "*Certificateholders' right to receive payment of the face amount of the Certificates and the Certificateholders' right to any profit will be cancelled or permanently written-down (in whole or in part) upon the occurrence of a Non-Viability Event*". The exercise (or perceived likelihood of exercise) of any such power by the Financial Regulator or any suggestion of such exercise could materially adversely affect the value of the Certificates and could lead to the Certificateholders losing some or all of their investment in the Certificates.

The financial viability of the Bank will also depend in part on decisions made by the Bank in relation to its business and operations, including the management of its capital position. In making such decisions, the Bank will not necessarily have regard to the interests of Certificateholders and, in particular, the consequences for Certificateholders of any such decisions and there can be no assurance in any such circumstances that the interests of the Bank, its shareholders and the Financial Regulator will be aligned with those of the Certificateholders.

**The payment obligations of the Bank under the Mudaraba Agreement are subordinated and unsecured obligations**

Payments of Periodic Distribution Amounts will be made by the Trustee provided that the Bank (as Mudareb) shall have paid to the Trustee profit amounts equal to such Periodic Distribution Amount pursuant to the terms of the Mudaraba Agreement. In this regard, prospective investors should note that the payment obligations of the Bank under the Mudaraba Agreement rank subordinate to all Senior Obligations (as defined in the Conditions), rank *pari passu* with all other Pari Passu Obligations (as defined in the Conditions) and rank in priority to all Junior Obligations (as defined in the Conditions), as more particularly described in Condition 4.2 (*Subordination*).

Further, the payment obligations of the Bank under the Mudaraba Agreement are unsecured and no collateral is or will be given by the Bank in relation thereto.

The Trustee may exercise its enforcement rights in relation to the Mudaraba Agreement only in the manner provided in Condition 12.3 (*Winding-up, dissolution or liquidation*). If the Bank were wound up, liquidated or dissolved, the Bank's liquidator would apply the assets of the Bank to satisfy all claims of creditors in respect of Senior Obligations in priority to the claims of the holders of the Certificates and *pari passu* with creditors whose claims are in respect of the Pari Passu Obligations. In such case, there may not be sufficient assets to satisfy the claims of the holders of the Certificates in full.

### No limitation on issuing senior securities; subordination

Other than the limitations in relation to the issue of further Tier 1 Capital by the Bank as set out in Condition 4.3 (*Other Issues*) which limits the circumstances in which Tier 1 Capital of the Bank can be issued that ranks senior to the Certificates, there is no restriction in the Conditions or in the terms of the Transaction Documents on the Bank (in its capacity as Mudareb or otherwise) incurring additional financing or issuing securities or creating any guarantee or contractual support arrangement which would rank senior to the Certificates and the obligations of the Bank under the Mudaraba Agreement (the "**Bank Senior Obligations**"). The issue of or the creation of any such Bank Senior Obligations may reduce the amount recoverable by Certificateholders on a winding-up of the Bank. Accordingly, in the winding-up of the Bank and after payment of the claims of Senior Creditors, there may not be a sufficient amount to satisfy the amounts owing to the Certificateholders. See also "*—The payment obligations of the Bank under the Mudaraba Agreement are subordinated and unsecured obligations*".

### Payments of Periodic Distribution Amounts are conditional upon certain events and may be cancelled and are non-cumulative

The Bank may elect (any such election being a "**Non-Payment Election**"), in its sole discretion and by instructing the Trustee to such effect, not to make payment of a Periodic Distribution Amount (in whole or in part) to Certificateholders on the corresponding Periodic Distribution Date as more particularly provided in Condition 8.2 (*Non-Payment Election*), except that no such election may be made in respect of the Periodic Distribution Amount payable on the date on which the Certificates are to be redeemed in whole at the Bank's discretion in accordance with Condition 10 (*Redemption and Variation*).

In addition, if a Non-Payment Event (as defined in the Conditions) occurs (which includes the case where sufficient Distributable Funds are not available in order to permit the Bank to make the relevant payment or as a result of a breach of Applicable Regulatory Capital Requirements), the Bank (in its capacity as Mudareb) shall be prohibited from paying Rab-al-Maal Mudaraba Profit or Rab-al-Maal Final Mudaraba Profit, as applicable, on any Mudaraba Profit Distribution Date or Mudaraba End Date (as the case may be) pursuant to the Mudaraba Agreement, and as a result thereof the Trustee shall be prohibited from paying Periodic Distribution Amounts to the Certificateholders on the corresponding Periodic Distribution Date, as more particularly provided in Condition 8.1 (*Non-Payment Event*).

In relation to the paragraph above, "Distributable Funds" is defined in the Conditions as "the aggregate of the Bank's (a) consolidated retained earnings and reserves after the transfer of any amounts to non-distributable reserves; and (b) profits (after the transfer of any amounts to non-distributable reserves, if applicable), less any prior distribution of Rab-al-Maal Mudaraba Profit calculated and paid by reference to the most recent annual audited or (as the case may be) auditor reviewed consolidated financial statements of the Bank, and in the case of each of (a) and (b): (i) as set out in such audited consolidated financial statements or (as the case may be) auditor reviewed consolidated financial statements; and (ii) to the extent not restricted from distribution by applicable law, subject as otherwise defined in the Capital Regulations from time to time". As at 31 December 2020, the Bank's Distributable Funds amounted to KD 44.6 million.

If any amount of Rab-al-Maal Mudaraba Profit, Rab-al-Maal Final Mudaraba Profit or Periodic Distribution Amount is not paid as a consequence of a Non-Payment Election or a Non-Payment Event then, from the date of such Non-Payment Election or Non-Payment Event, the Bank will be prohibited from declaring or paying certain distributions or dividends and from redeeming, purchasing, cancelling, reducing or otherwise acquiring certain securities, in each case for a limited period of time, as more particularly described in Condition 8.4 (*Dividend and Redemption Restrictions*). However, the Certificateholders shall have no claim in respect of any Periodic Distribution Amount not paid as a result of either a Non-Payment Election or a Non-Payment Event and the consequential non-payment of any Periodic Distribution Amount in such a circumstance shall not constitute a Dissolution Event. Any Periodic Distribution Amounts not paid following either a Non-Payment Election or a Non-Payment Event will not accumulate or compound. Accordingly, the Bank shall not have any obligation to make any subsequent payment in respect of any such unpaid profit (whether from its own cash resources, from the Mudaraba Reserve or otherwise) and the Trustee will not have any obligation to make any subsequent payment in respect of any such Periodic Distribution Amounts.

If such a situation occurs, the Certificateholders shall not receive Periodic Distribution Amounts on their investment in the Certificates and neither the Trustee nor the Certificateholders shall have any claim in respect thereof. Any non-payment of Periodic Distribution Amounts or perceived risk of such non-payment may have a material adverse effect on the market value of the Certificates.

### The Certificates are Perpetual Securities

The Certificates are perpetual securities which have no scheduled payment date. The Trustee is under no obligation to redeem the Certificates at any time and the Certificateholders have no right to call for their redemption unless a Bank Event occurs.

The Bank Events and Certificateholders' rights following a Bank Event are set out in Condition 12 (*Dissolution Events and Winding-up*). The Dissolution Events in the Conditions are limited to: (a) Bank Events (being (i) a default by the Mudareb for a period of five days or more in the payment of any principal or 14 days or more in the payment of any profit amount due and payable by it under the Mudaraba Agreement; or (ii) an order is made or an effective resolution is passed for the winding-up or dissolution or administration of the Bank or the Bank applies or petitions for a winding-up or administration order in respect of itself except, in each case for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation on terms approved by the Delegate (acting in accordance with the Declaration of Trust and the Conditions) or by an Extraordinary Resolution of the Certificateholders); and (b) Trustee Events (being similar in nature to Bank Events in respect of the Trustee), all as more fully described in the Conditions.

In certain circumstances the Bank may (acting in its sole discretion) instruct the Trustee to, whereupon the Trustee shall, redeem the Certificates, including on the First Call Date and on any date thereafter up to and including the First Reset Date, or any Periodic Distribution Date thereafter and if a Tax Event or a Capital Event occurs, as more particularly described in Condition 10 (*Redemption and Variation*), although there is no assurance that the Bank will require it to do so. Any such redemption will also be subject to a number of conditions, as set out in Condition 10.1(a) (*No Fixed Redemption Date and Conditions for Redemption and Variation*).

Therefore, prospective investors should be aware that they may be required to bear the financial risks of an investment in the Certificates indefinitely, unless:

(i) the Trustee exercises its rights to redeem the Certificates in accordance with Condition 10 (*Redemption and Variation*);

(ii) the Trustee is directed by an Extraordinary Resolution of the Certificateholders, or by the Delegate (acting in accordance with the Declaration of Trust and the Conditions), following a Bank Event to redeem the Certificates; or

(iii) they sell their Certificates.

The exercise of (or perceived likelihood of exercise of) any such redemption feature of the Certificates may limit their market value, which is unlikely to rise substantially above the price at which the Certificates can be redeemed.

If the Certificates are redeemed, there can be no assurance that Certificateholders will be able to reinvest the amount received upon redemption in a comparable security at a rate that will provide the same rate of return as their investment in the Certificates. Potential investors should consider reinvestment risk in light of other investments available at that time. See also "*Absence of secondary market/limited liquidity*" for a description of the risks relating to the ability of holders of Certificates to sell the Certificates in the secondary market.

**The Certificates will cease to accrue profit from the due date for redemption (if any)**

Investors are advised that each Certificate will cease to accrue profit from the due date for redemption (following liquidation of the Mudaraba). Consequently, should payments owing to Certificateholders on the due date for redemption (if any) be received by them after the due date for any reason, no additional profit payment, late payment amount or other equivalent amount will be payable in respect of such delay. See Condition 7.3 (*Cessation of Accrual*).

**Due to the deeply subordinated nature of the obligations arising under the Certificates, the Conditions contain limited Dissolution Events and remedies**

The Certificates are perpetual instruments with no fixed redemption date and there is no obligation on the Trustee to pay the face amount of the Certificates other than in accordance with the exercise of a call option in accordance with Condition 10.1(b) (*Trustee's Call Option*), a redemption in accordance with Condition 10.1(c) (*Redemption or Variation due to Taxation*), a redemption in accordance with Condition 10.1(d) (*Redemption or Variation for Capital Event*) or following the occurrence of a Bank Event in accordance with Condition 12.1 (*Bank Events*). In addition, the Trustee may be prohibited from making, or instructed by the Bank not to make, payments of Periodic Distribution Amounts on the Certificates in accordance with Condition 8 (*Periodic Distribution Restrictions*) and Periodic Distribution Amounts will not therefore be due other than in the limited circumstances described in the Conditions.

Moreover, pursuant to Condition 12 (*Dissolution Events and Winding-up*), upon the occurrence of any Bank Event, the Mudaraba will be liquidated in accordance with the provisions of the Mudaraba Agreement and the remedies available to the Trustee, the Delegate and/or the Certificateholders (as applicable) are limited to giving notice to the Trustee and the Bank that the Certificates are, and shall immediately become, due and payable without presentation, demand, protest or other notice of any kind at their aggregate face amount together with any Outstanding Payments (as defined in the Conditions) and thereafter: (i) instituting any steps, actions or proceedings for the winding-up or bankruptcy of the Bank and/or (ii) proving in the winding-up of the Bank and/or (iii) claiming in the liquidation of the Bank and/or (iv) taking such other steps, actions or proceedings which, under the laws of Kuwait, have an analogous effect to the actions referred to paragraphs (i) to (iii) above, in each case, for the payment of amounts due under the Mudaraba Agreement. Therefore, it will only be possible to enforce claims for payment of the applicable Dissolution Distribution Amount and/or Periodic Distribution Amounts in respect of the Certificates when the same have become due pursuant to the Mudaraba Agreement and the Conditions.

Furthermore, the claims of Senior Creditors of the Bank will first have to be satisfied in any winding-up, bankruptcy, dissolution, liquidation or analogous proceedings before the Certificateholders may expect to obtain any amounts in respect of their Certificates and prior thereto Certificateholders will have only limited (if any) ability to influence the conduct of such winding-up, liquidation or analogous proceedings.

**Resettable fixed rate instruments have a market risk**

A holder of an instrument with a fixed profit (or equivalent) rate that will be reset during the term of the instrument (as will be the case for the Certificates with effect from each Reset Date (as defined in the Conditions) if not previously redeemed and/or purchased and cancelled) is exposed to the risk of fluctuating profit rate levels and uncertain profit rate income. While the expected profit rate on the Certificates is fixed until the First Reset Date (with a reset of the initial profit rate on the First Reset Date as set out in the Conditions and every six years thereafter), the current investment return rate in the capital markets (the market return rate) typically changes on a daily basis. As the market return rate changes, the market value of the Certificates may also change, but in the opposite direction. If the market return rate increases, the market value of the Certificates would typically decrease. If the market return rate falls, the market value of the Certificates would typically increase. Certificateholders should be aware that movements in these market return rates can adversely affect the market value of the Certificates and can lead to losses for the Certificateholders if they sell the Certificates.

### Variation upon the occurrence of a Capital Event or a Tax Event

Upon the occurrence and continuation of a Capital Event or a Tax Event, the Bank may (acting in its sole discretion), instruct the Trustee to, whereupon the Trustee shall, subject as provided in Condition 10.1(c) (*Redemption or Variation due to Taxation*) or Condition 10.1(d) (*Redemption or Variation for Capital Event*) (as the case may be) and without any requirement for consent or approval of the Certificateholders, vary the terms of the Mudaraba Agreement and the Certificates such that the Certificates become or remain (as appropriate) Qualifying Tier 1 Instruments (as defined in the Conditions).

A Capital Event is deemed to have occurred if the Bank is notified in writing by the Financial Regulator to the effect that the outstanding face amount (or the amount that qualifies as regulatory capital, if some amount of the Certificates is held by the Bank or whose purchase is funded by the Bank) of the Certificates is excluded (in full or in part) from the consolidated Tier 1 Capital of the Bank (save where such non-qualification is only as a result of any applicable limitation on the amount of such capital). A Tax Event will arise if the Bank or the Trustee (as the case may be) would, as a result of a Tax Law Change (as defined in the Conditions), in making any payments under the Mudaraba Agreement or on the Certificates (as the case may be) on the next due date for such payment, be required to pay Additional Amounts (and such requirement cannot be avoided by the Bank or the Trustee (as the case may be) taking reasonable measures available to it). Each of Tax Event and Capital Event are more particularly described in Condition 10.1 (*Redemption and variation*).

The tax and stamp duty consequences of holding the Certificates following variation as contemplated in Condition 10.1 (*Redemption and variation*) could be different for certain Certificateholders from the tax and stamp duty consequences for them of holding the Certificates prior to such variation and none of the Trustee, the Delegate, the Agents or the Bank shall be responsible to any Certificateholder for any such consequences in connection therewith. Further, while the Conditions stipulate that the variation (as contemplated by the Conditions) must not be materially less favourable to the Certificateholders, no assurance can be given as to whether any of these changes will negatively affect any particular Certificateholder.

### The Certificates are limited recourse obligations

The Certificates are not debt obligations of the Trustee. Instead, the Certificates represent an undivided ownership interest solely in the Trust Assets. Recourse to the Trustee in respect the Certificates is limited to the Trust Assets and the proceeds of the Trust Assets are the sole source of payments on the Certificates. Upon receipt by the Trustee of a Dissolution Notice in accordance with the terms of Condition 12.1 (*Bank Events*), the sole rights of each of the Trustee and/or the Delegate (acting on behalf of the Certificateholders) will be (subject to Condition 12.3 (*Winding-up, dissolution or liquidation*)) against the Bank to perform its obligations under the Transaction Documents. Certificateholders will have no recourse to any assets of the Trustee (other than the Trust Assets in the manner contemplated in the Transaction Documents), the Delegate or the Agents or any of their respective affiliates in respect of any shortfall in the expected amounts from the Trust Assets. The Bank is obliged to make certain payments under the Transaction Documents directly to the Trustee, and the Trustee and/or the Delegate will have direct recourse against the Bank to recover such payments due to the Trustee pursuant to the Transaction Documents.

After enforcing or realising the rights in respect of the Trust Assets and distributing the net proceeds of such Trust Assets in accordance with Condition 5.3 (*The Trust*), the obligations of the Trustee and/or the Delegate in respect of the Certificates shall be satisfied and neither the Delegate nor any Certificateholder may take any further steps against the Trustee to recover any further sums in respect of the Certificates and the right to receive any such sums unpaid shall be extinguished. Furthermore, under no circumstances shall the Trustee, the Delegate or any Certificateholder have any right to cause the sale or other disposition of any of the Trust Assets (other than as expressly contemplated in the Transaction Documents) and the sole right of the Delegate and the Certificateholders against the Trustee and the Bank shall be (in accordance with Condition 12.3 (*Winding-up, dissolution or liquidation*)) to enforce their respective obligations under the Transaction Documents.

### Absence of secondary market/limited liquidity

There is no assurance that a secondary market for the Certificates will develop or, if it does develop, that it will provide the Certificateholders with liquidity of investment or that it will continue for the life of the Certificates. Accordingly, a Certificateholder may not be able to find a buyer to buy its Certificates readily or at prices that will enable the Certificateholder to realise a desired yield. The market value of the Certificates may fluctuate and a lack of liquidity, in particular, can have a material adverse effect on the market value of the Certificates. The Certificates generally may have a more limited secondary market liquidity and may be subject to greater price volatility than conventional debt securities as they are perpetual securities (see "—*The Certificates are Perpetual Securities*"), are subordinated (see "—*The payment obligations of the Bank under the Mudaraba Agreement are subordinated and unsecured obligations*"), will be fully and permanently written down upon the occurrence of a Non-Viability Event (see "—*Certificateholders' right to receive payment of the face amount of the Certificates and the Certificateholders' right to any profit may be cancelled or permanently written-down upon the occurrence of a Non-Viability Event*") and payments of Periodic Distribution Amounts may be restricted in certain circumstances (see "—*Payments of Periodic Distribution Amounts are conditional upon certain events and may be cancelled and are non-cumulative*"). Furthermore, certain shareholders and related parties of the Bank may participate in the offering of the Certificates. The secondary market liquidity of the Certificates may be adversely affected if, and to the extent that, such person(s) intend(s) to adopt a buy and hold strategy in respect of the Certificates.

Application has been made for the Certificates to be admitted to the Official List and for such Certificates to be admitted to trading on the Regulated Market. However, there can be no assurance that any such listing or admission to trading will occur on or prior to the Issue Date or at all or, if it does occur, that it will enhance the liquidity of the Certificates.

Accordingly, the purchase of the Certificates is suitable only for investors who can bear the risks associated with a lack of liquidity in the Certificates and the financial and other risks associated with an investment in the Certificates.

### The Certificates may be subject to early redemption; redemption is conditional

Upon the occurrence of a Tax Event or a Capital Event, the Bank may (acting in its sole discretion), instruct the Trustee to, whereupon the Trustee shall, at any time, having given not less than 15 nor more than 30 days' prior notice to the Certificateholders in accordance with Condition 17 (*Notices*) (which notice shall be irrevocable and shall specify the date fixed for redemption), redeem in accordance with the Conditions all, but not some only, of the Certificates together with any accrued but unpaid Periodic Distribution Amounts (as more particularly described in Condition 10.1(c) (*Redemption or Variation due to Taxation*) in relation to a Tax Event, and Condition 10.1(d) (*Redemption or Variation for Capital Event*) in relation to a Capital Event).

Any redemption of the Certificates is subject to the requirements in Condition 10.1(a) (*No Fixed Redemption Date and Conditions for Redemption and Variation*), including obtaining the prior approval of the Financial Regulator. There can be no guarantee that the approval of the Financial Regulator will be received on time or at all.

There is no assurance that the Certificateholders will be able to reinvest the amount received upon redemption at a rate that will provide the same rate of return as their investment in the Certificates. During any period when the Bank may instruct the Trustee to redeem the Certificates, the market value of the Certificates generally will not rise substantially above the relevant redemption amount payable in respect of the Certificates. Potential investors should consider re-investment risk in light of other investments available at that time.

### Investment in the Mudaraba Assets

Pursuant to the Mudaraba Agreement, the proceeds of the issuance of the Certificates will be contributed by the Trustee (as Rab-al-Maal) to the Mudareb which proceeds shall form the initial capital of the Mudaraba (the "**Mudaraba Capital**"). The Mudaraba Capital will be co-mingled with shareholders' equity and invested by the Bank (as Mudareb), on an unrestricted co-mingling Mudaraba basis, in its general business activities carried out through the General Mudaraba Pool (as defined in the Conditions) and, following investment of the Mudaraba Capital, the Mudaraba Capital shall constitute *pro rata* undivided assets in the General Mudaraba Pool (the "**Mudaraba Assets**") with a view to earning profit therefrom, which will in turn be applied towards payments due to Certificateholders in respect of the Certificates.

No investigation or enquiry will be made and no due diligence will be conducted in respect of any Mudaraba Assets. The investment activities of the Mudaraba will be carried out by the Bank, and the Certificateholders shall have no ability to influence such activities. The Bank shall be granted the express entitlement to co-mingle its own assets in the General Mudaraba Pool assets and, as a result, it may not be possible to identify the Mudaraba Assets separately from the assets of the Bank.

If any of the risks relating to the business of the Bank mentioned above (see "*—Risks relating to the Bank and its ability to fulfil its obligations under the Transaction Documents*") materialise or otherwise impact the Bank's business, the value of and profit earned from the investment in such Mudaraba Assets may decrease which may, in turn, have a material adverse effect on the Bank's ability to fulfil its payment obligations under the Mudaraba Agreement and consequently, the Trustee's ability to make payments in respect of the Certificates.

Furthermore, whilst the Mudareb has agreed in the Mudaraba Agreement to ensure that the Mudaraba Capital is invested in accordance with the Investment Plan (and with the degree of skill and care that it would exercise in respect of its own assets), the Mudaraba Agreement also provides that there is no guarantee of any return from the Mudaraba Assets. In addition, the Trustee and the Mudareb have agreed in the Mudaraba Agreement that the Mudareb shall not be responsible for any losses to the Mudaraba Capital suffered by the Trustee except to the extent such losses are caused by: (i) the Mudareb's breach of the Mudaraba Agreement; or (ii) the Mudareb's gross negligence, wilful misconduct or fraud.

Accordingly, potential investors are advised that any claim by or on behalf of the Trustee for the Mudaraba Capital following any Dissolution Event may be reduced if and to the extent that the Mudareb is able to prove that any losses to the Mudaraba Capital were not caused by: (i) the Mudareb's breach of the Mudaraba Agreement; or (ii) the Mudareb's gross negligence, wilful misconduct or fraud. If the Mudareb is able to provide such proof, Certificateholders may lose all or some of their investment. It is not possible to state with certainty what approach any court with jurisdiction will take in such circumstances.

### Credit ratings assigned to the Bank may not reflect all the risks associated with an investment in the Certificates

One or more independent credit rating agencies may assign credit ratings to the Bank. The ratings may not reflect the potential impact of all risks related to the structure, market, additional factors discussed above and other factors that may affect the value of the Certificates, and will not reflect the deeply subordinated nature of the Bank's payment obligations under the Transaction Documents if such ratings relate to senior payment obligations of the Bank. A credit rating is not a recommendation to buy, sell or hold securities and may be revised, suspended or withdrawn by the rating agency at any time.

In general, European regulated investors are restricted under the EU CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the EU CRA Regulation (and such registration has not been withdrawn or suspended). Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the EU CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). The list of registered and certified rating agencies published by ESMA on its website in accordance with the EU CRA Regulation is not conclusive evidence of the status of the relevant rating agency being included in such list as there may be delays between certain supervisory measures being taken against a relevant rating agency and publication of an updated ESMA list.

Investors regulated in the UK are subject to similar restrictions under the UK CRA Regulation. As such, UK regulated investors are required to use for UK regulatory purposes ratings issued by a credit rating agency established in the UK and registered under the UK CRA Regulation. In the case of ratings issued by third country non-UK credit rating agencies, third country credit ratings can either be: (a) endorsed by a UK registered credit rating agency; or (b) issued by a third country credit rating agency that is certified in accordance with the UK CRA Regulation. In each case, this is subject to the relevant UK registration, certification or endorsement, as the case may be, not having been withdrawn or suspended. Furthermore, in the case of third country ratings, for a certain limited period of time, transitional relief accommodates continued use for regulatory purposes in the UK, of existing pre-2021 ratings, provided the relevant conditions are satisfied.

If the status of the rating agency rating the Bank changes for the purposes of the EU CRA Regulation or the UK CRA Regulation, relevant regulated investors may no longer be able to use the rating for regulatory purposes in the EU or the UK, as applicable, and the Certificates may have a different regulatory treatment, which may impact the value of the Certificates and their liquidity in the secondary market. Certain information with respect to the credit rating agencies and ratings is set out on the cover of this Prospectus.

Any real or anticipated changes in the Bank's credit ratings generally will affect the market value of the Certificates.

## RISKS RELATING TO ENFORCEMENT

### The insolvency regime in Kuwait is relatively untested with limited guidance as to how the legislative framework will be applied in practice by the courts in Kuwait

Notwithstanding that the Transaction Documents are expressed to be governed by English law, in the event of the Bank's insolvency, the Kuwaiti bankruptcy law applicable at the time of any such event shall apply. Cognisance in this regard should be had to the current Kuwait bankruptcy regime being replaced by a new Kuwait insolvency law (Law No. 71 of 2020) (the "**New Insolvency Law**") which is due to come into full force and effect, at the earliest, on 25 July 2021 or on such date thereafter falling three months after the date of the formal promulgation of the implementing regulations to the New Insolvency Law. The then applicable Kuwait bankruptcy regime in the event of the Bank's insolvency may adversely affect the Bank's ability to perform its obligations under the Transaction Documents and, consequently, the Trustee's ability to perform its obligations in respect of any Certificates. Further, obtaining a final bankruptcy judgment in Kuwait may take several years. There is little precedent to predict how any claims on behalf of holders of the Certificates, the Trustee and/or the Delegate against the Bank would be resolved in the event of the Bank's insolvency and therefore there can be no assurance that holders of the Certificates will receive payment of their claims in full or at all in these circumstances.

### There is a risk that the Kuwaiti Courts will assume jurisdiction

The Transaction Documents each contain a provision to the effect that disputes arising thereunder will be referred to arbitration under the Arbitration Rules of the London Court of International Arbitration ("**LCIA**") (the "**Rules**").

Nevertheless, if a claim is brought before the courts of Kuwait (the "**Kuwaiti Courts**"), the Kuwaiti Courts may still accept jurisdiction in any suit, action or proceedings in the situations identified in Articles 23, 24 and 26 of Kuwait Law No. 38 of 1980 (the Code of Civil and Commercial Procedure), as amended (the "Code"). These situations include (a) where the defendant in the proceedings expressly or impliedly accepted the jurisdiction of the Kuwaiti Courts, (b) where the defendant is a Kuwaiti national or is resident, domiciled or has a place of business or a chosen domicile in Kuwait or (c) if such legal proceedings relate to property (movable or immovable) located in Kuwait, an obligation is created, executed or required to be performed in Kuwait or a bankruptcy is declared in Kuwait.

There can therefore be no assurance that the Kuwaiti Courts will decline jurisdiction to adjudicate any dispute under the Transaction Documents, notwithstanding that the Transaction Documents provide that parties have agreed that any disputes arising thereunder shall be referred to arbitration under the Rules. The risk that the Kuwaiti Courts would assume jurisdiction on the proceedings is reduced, but not eliminated, in the event that, (a) the respondent to a claim raises procedural defences as regards the jurisdiction, and (b) the existence of previous or simultaneous proceedings in, or res judicata judgments from, a competent jurisdiction outside Kuwait, on the subject matter and involving the same disputing parties. The Kuwaiti Courts will not recognise or give effect to the choice of the laws of England to govern the Transaction Documents, nor enforce a foreign judgment or foreign arbitral award to the extent that any of such laws, judgments or arbitral awards are found by the Kuwaiti Courts to be contrary to rules of public order or morality of Kuwait.

### Certificateholders will only be able to enforce their contractual rights under the Transaction Documents through arbitration under the Rules, and LCIA awards relating to disputes arising under the Certificates may not be enforceable in Kuwait

The payments under the Certificates are dependent upon receipt by the Trustee of all amounts due from the Bank under the Transaction Documents and payment by the Trustee of all amounts due to investors in the manner contemplated under the Certificates and the Transaction Documents. If the Trustee or, where applicable, the Bank, fails to fulfil its obligations under the Certificates and/or the Transaction Documents, it may be necessary for the Delegate (or, in the limited circumstances described in Condition 12 (*Dissolution Events and Winding-up*), the Certificateholders) to bring an action against the Trustee and/or the Bank to enforce their respective obligations and/or to claim damages, as appropriate, which may be costly and time consuming. Disputes arising under the Certificates and/or the Transaction Documents will be referred to arbitration under the Rules. Certificateholders will therefore only have recourse to LCIA arbitration in order to enforce their contractual rights under the Certificates, and will not have the right to bring proceedings relating to the Certificates before the English courts.

Kuwait is a party to the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the "**New York Convention**"). A foreign arbitral award will be recognised and enforced in Kuwait (without re-trial or examination of the merits of the case) in accordance with the Code. Article 200 of the Code provides that foreign arbitral awards are to be recognised and enforced under the same conditions (applied mutatis mutandis to foreign arbitral awards) as are applied in respect of the enforcement of foreign judgments under Article 199 of the Code (as detailed below) save that, in addition, the subject matter of the award must be considered arbitrable under Kuwaiti law and the arbitral award must be enforceable in the jurisdiction in which it was rendered.

Article 199 of the Code requires that: (a) the courts of the jurisdiction by which the judgment was rendered must afford reciprocal treatment to judgments rendered in Kuwait; (b) the judgment must be rendered by a competent authority according to the law of the jurisdiction in which it was rendered; (c) the parties must have been duly summoned to appear and were duly represented at the proceedings; (d) the judgment must be final and non-appealable (res judicata) according to the law of the jurisdiction in which it was rendered; (e) the judgment must not contradict any prior judgment rendered by a Kuwaiti Court; and, finally (f) the judgment must not contain anything in conflict with the general morals or public order of Kuwait.

The requirement to establish reciprocal enforcement under Article 199 of the Code with respect to the recognition and enforcement of arbitral awards issued in England is satisfied as England and Kuwait are both signatories to the New York Convention. Enforcement of a foreign arbitral award in Kuwait requires the filing of an enforcement action in the Kuwaiti Courts. Proceedings before the Kuwaiti Courts, including enforcement actions, can take a relatively long time before a final and non-appealable judgment is issued.

There have not been many occasions in which the Kuwaiti Courts have been asked to consider the enforcement of foreign arbitral awards and so (notwithstanding that on those occasions when they have been asked to do so they have shown that they will follow the provisions of the Code and enforce an arbitral award) there is not a large body of decided cases in which the practical implications of complying with Article 199 of the Code have been analysed.

## ADDITIONAL RISK FACTORS

### Certificateholders must rely on Euroclear and Clearstream, Luxembourg procedures

The Certificates will be represented on issue by a Global Certificate that will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg. Except in the circumstances described in the Global Certificate, investors will not be entitled to receive Certificates in definitive form. Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants will maintain records of the ownership interests in the Global Certificate.

While the Certificates are represented by the Global Certificate, investors will be able to trade their ownership interests only through Euroclear and Clearstream, Luxembourg and their respective participants.

While the Certificates are represented by the Global Certificate, the Trustee will discharge its payment obligation under the Certificates by making payments through the relevant clearing systems. A holder of an ownership interest in the Global Certificate must rely on the procedures of the relevant clearing system and its participants to receive payments under the Certificates. The Trustee has no responsibility or liability for the records relating to, or payments made in respect of, ownership interests in the Global Certificate.

Holders of ownership interests in the Global Certificate will not have a direct right to vote in respect of the Certificates so represented. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

### No assurance can be given as to *Shari'a* rules

The Fatwa & Shari'a Supervisory Board of the Bank, the Shariah Advisory Board of Citi Islamic Investment Bank E.C. and the Global Shariah Supervisory Committee of Standard Chartered Bank have each confirmed that the transaction structure relating to the Certificates (as described in this Prospectus) and the Transaction Documents are, in their view, Shari'a-compliant. However, there can be no assurance that the Transaction

Documents or the issue and trading of the Certificates will be deemed to be *Shari'a*-compliant by any other *Shari'a* board or *Shari'a* scholars. None of the Trustee, the Bank, the Delegate, the Agents, or the Joint Lead Managers makes any representation as to the *Shari'a*-compliance of the Certificates and/or any trading thereof and potential investors are reminded that, as with any *Shari'a* views, differences in opinion are possible. Prospective investors should obtain their own independent *Shari'a* advice as to whether the Transaction Documents and the Certificates will meet their individual standards of compliance and should also make their own determination as to the future tradability of the Certificates on any secondary market. Questions as to the *Shari'a* permissibility of the Transaction Documents or the issue and the trading of the Certificates may limit the liquidity and adversely affect the market value of the Certificates.

In addition, prospective investors are reminded that the enforcement of any obligations of any of the parties under the Conditions or the Transaction Documents would be, if in dispute, the subject of arbitration in London under the LCIA Rules. In such circumstances, the arbitrator will apply the relevant law of the relevant Transaction Document in determining the obligation of the parties.

### ***Shari'a*** **requirements in relation to interest awarded by a court**

In accordance with applicable *Shari'a* principles, each of the Trustee and the Delegate will waive all and any entitlement it may have to interest awarded in its favour by any court in connection with any dispute under the Mudaraba Agreement. Should there be any delay in the enforcement of a judgment given against the Bank, judgment interest may accrue in respect of that delay and, as a result of the waiver referred to above, Certificateholders will not be entitled to receive all, or any part of, such interest.

### Certificates with a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade

As the Certificates have a minimum denomination consisting of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof, it is possible that the Certificates may be traded in amounts in excess of U.S.$200,000 that are not integral multiples of U.S.$200,000. In such a case, a Certificateholder who, as a result of trading such amounts, holds a face amount of less than U.S.$200,000 would need to purchase an additional amount of Certificates with a face value of U.S.$200,000 or more such that it holds an amount equal to at least U.S.$200,000 to be able to trade such Certificates. Certificateholders should be aware that Certificates which have a denomination that is not an integral multiple of U.S.$200,000 may be illiquid and difficult to trade.

If a Certificateholder holds an amount which is less than U.S.$200,000 in his account with the relevant clearing system at the relevant time, such Certificateholder may not receive a Definitive Certificate in respect of such holding (should Definitive Certificates be printed) and would need to purchase a face amount of Certificates such that its holding amounts to at least an Authorised Denomination (as defined in the Conditions) in order to be eligible to receive a Definitive Certificate.

If Definitive Certificates are issued, holders should be aware that Definitive Certificates which have a denomination that is not an integral multiple of U.S.$200,000 may be illiquid and difficult to trade.

### Consents are required in relation to the variation of Transaction Documents and other matters

The Conditions contain provisions for calling meetings of Certificateholders to consider matters affecting their interests generally and for obtaining written resolutions on matters relating to the Certificates from Certificateholders without calling a meeting. A written resolution signed by or on behalf of the holders of not less than 75 per cent. in face amount of the Certificates who for the time being are entitled to receive notice of a meeting in accordance with the provisions of the Declaration of Trust and whose Certificates are outstanding shall, for all purposes, take effect as an Extraordinary Resolution.

In certain circumstances, where the Certificates are held in global form in the clearing systems, the Trustee, the Bank and the Delegate will be entitled to rely upon:

(i) where the terms of the proposed resolution have been notified through the relevant clearing system(s), approval of a resolution proposed by the Trustee, the Bank or the Delegate or given by way of electronic consents communicated through the electronic communications systems of the relevant clearing systems in accordance with their operating rules and procedures by or on behalf of the holders of not less than 75 per cent. in face amount of the Certificates for the time being outstanding; and

(ii) where electronic consent is not being sought, consent or instructions given in writing directly to the Trustee, the Bank and/or the Delegate by (a) accountholders in the clearing system(s) with entitlements to the Global Certificate and/or (b) where the accountholders hold any such entitlement on behalf of another person, on written consent from or written instruction by the person identified by that accountholder as the person for whom such entitlement is held. For the purpose of establishing the entitlement to give any such consent or instruction, the Trustee, the Bank and the Delegate shall be entitled to rely on any certificate or other document issued by, in the case of (a) above, Euroclear, Clearstream, Luxembourg or any other relevant alternative clearing system (the "**relevant clearing system**") and, in the case of (b) above, the relevant clearing system and the accountholder identified by the relevant clearing system for the purposes of (b) above.

A written resolution or an electronic consent as described above may be effected in connection with any matter affecting the interests of Certificateholders, including the modification of the Conditions, that would otherwise be required to be passed at a meeting of Certificateholders satisfying the special quorum in accordance with the provisions of the Declaration of Trust, and shall for all purposes take effect as an Extraordinary Resolution passed at a meeting of Certificateholders duly convened and held. These provisions permit defined majorities to bind all Certificateholders including Certificateholders who did not attend and vote at the relevant meeting and Certificateholders who voted in a manner contrary to the majority.

The Conditions also provide that the Delegate may, without the consent or approval of the Certificateholders, agree to the substitution of another company as obligor under the Certificates in place of the Trustee, in the circumstances described in Condition 12.2 (*Trustee Events*).

The Conditions also provide that the Delegate may, without the consent or approval of the Certificateholders, agree to the variation of the terms of the Certificates so that they become or, as appropriate, remain, Qualifying Tier 1 Instruments, as provided in Condition 10.1(c) (*Redemption or Variation due to Taxation*) and Condition 10.1(d) (*Redemption or Variation for Capital Event*).

The Declaration of Trust also contains provisions permitting the Delegate from time to time and at any time without the consent or approval of the Certificateholders to agree to any modification to the Conditions, the Transaction Documents or the Trustee's memorandum and articles of association if, in the sole opinion of the Delegate, such modification: (a) is of a formal, minor or technical nature; or (b) is made to correct a manifest error; or (c) is not materially prejudicial to the interests of the Certificateholders then outstanding and is other than in respect of a Reserved Matter (as defined in the Declaration of Trust) and is not in contravention of any express direction by Extraordinary Resolution or request in writing by the holders of at least one-fifth of the outstanding aggregate face amount of the Certificates. Unless the Delegate otherwise agrees, any such modification shall as soon as practicable thereafter be notified to the Certificateholders and shall in any event be binding upon the Certificateholders.

### Exchange rate risks and exchange controls

Neither the Trustee nor the Bank has any control over factors that generally affect exchange rate risks, such as economic, financial and political events, and the supply and demand for applicable currencies. In recent years, exchange rates between certain currencies have been volatile and volatility between such currencies or with other currencies may be expected in future.

The Trustee will make all payments on the Certificates, and the Bank will make all payments pursuant to the Transaction Documents to which it is a party, in U.S. dollars. If an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than U.S. dollars, such investor may therefore bear certain exchange rate risks. These include the risks that: (a) exchange rates may significantly change (including changes due to devaluation of U.S. dollars or revaluation of the Investor's Currency); and (b) authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls which could adversely affect an applicable exchange rate. Any appreciation in the value of the Investor's Currency relative to U.S. dollars would decrease: (i) the Investor's Currency-equivalent yield on the Certificates; (ii) the Investor's Currency-equivalent value of the Dissolution Distribution Amount payable in respect of the Certificates; and (iii) the Investor's Currency-equivalent market value of the Certificates.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive lesser amounts under the Certificates than expected, or no such amounts.

**The application and enforcement of the Kuwaiti income tax regime is uncertain, and holders of the Certificates which are "non–GCC corporate entities" may become subject to the Kuwaiti income tax regime in certain limited circumstances**

Article 150 (bis) of Law No. 7 of 2010 Concerning the Establishment of the Capital Markets Authority and the Regulating of Securities Activities (introduced pursuant to Law No. 22 of 2015) ("**Article 150 (bis)**") provides that returns from bonds, finance sukuk and other similar securities, regardless of the nature of the issuer thereof, shall be exempted from taxation.

While the Kuwait Ministry of Finance has issued Administrative Resolution No. 2028 of 2015 (the "**Administrative Resolution**"), which essentially endorses the provisions of Article 150 (bis), to date it has not provided any further guidance regarding the interpretation of Article 150 (bis) or the Administrative Resolution. Similarly, the Kuwaiti Courts (who will be the final arbiters on the matter) have not been required to interpret such provision to date.

Furthermore, the Kuwait Ministry of Finance's Department of Income Tax (the "**DIT**") has to date not always adopted consistent rulings on Kuwaiti tax matters more generally. Accordingly, to the extent that the exemption afforded by Article 150 (bis) is held not to apply to the Certificates, to a particular Certificateholder or to the Trustee, such Certificateholder(s) which are non-GCC corporate entities and/or the Trustee may become subject to income tax in Kuwait (see "*Taxation — Kuwait*" for further details).

In addition, neither Article 150 (bis) nor the Administrative Resolution address the issue of whether or not there remains an obligation, as described under "*Taxation – Kuwait – Retention*", to make a deduction of five per cent. of the amount of any payments made by the Bank to the Trustee. In the event of any such deduction, the Transaction Documents to which the Bank is a party provides that the Bank will pay such additional amounts as will result in the eventual receipt by Certificateholders of such net amounts as would have been receivable by them if no withholding or deduction had been made.

Prospective purchasers of the Certificates are advised to consult their tax advisers as to the consequences under Kuwaiti and other applicable tax laws of acquiring, holding and disposing of the Certificates and receiving payments under the Certificates.

## DOCUMENTS INCORPORATED BY REFERENCE

The following documents have previously been published or are published simultaneously with this Prospectus and have been filed with the Central Bank of Ireland:

(a) the consolidated financial statements of the Bank as at and for the year ended 31 December 2020 together with the audit report thereon and the notes thereto (available at: https://boubyan.bankboubyan.com/media/filer_public/eb/46/eb46025a-af46-49b4-ad6e-dec18e722517/01_boubyan_bank_fs_31_dec_2020_-_english-final.pdf); and

(b) the consolidated financial statements of the Bank as at and for the year ended 31 December 2019 together with the audit report thereon and the notes thereto (available at: https://boubyan.bankboubyan.com/media/filer_public/0d/27/0d274e92-c4e5-479f-920d-052218039dba/boubyan_bank_31_dec_2019-english_final2.pdf),

(together, the "**Documents Incorporated by Reference**").

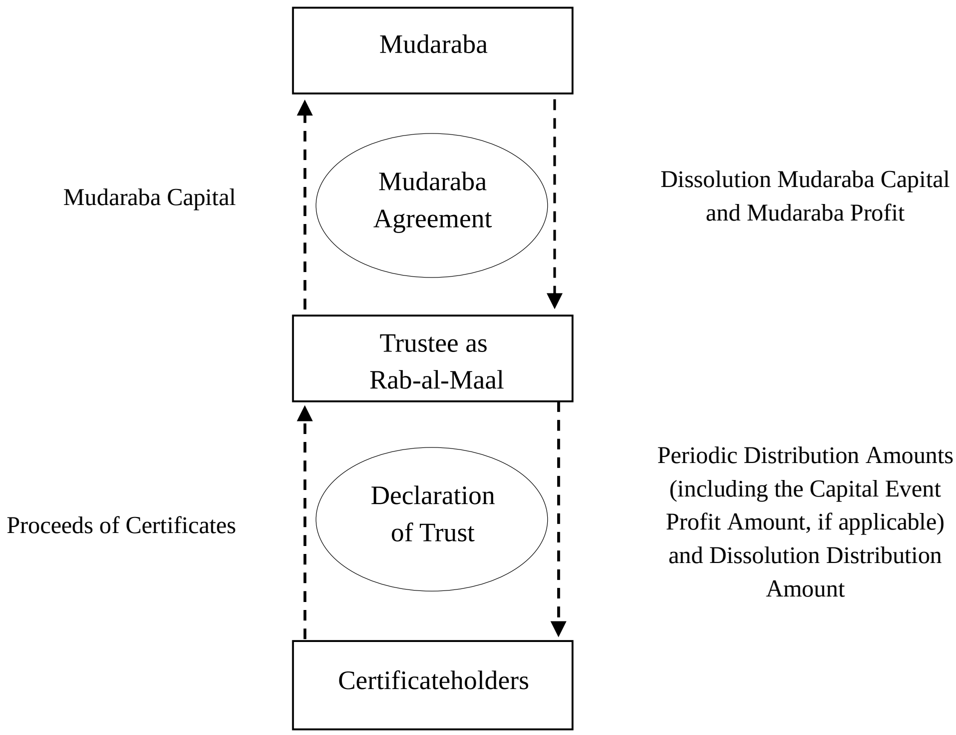
The Documents Incorporated by Reference shall be incorporated in, and form part of, this Prospectus, save that any statement contained in a document which is incorporated by reference herein shall be modified or superseded for the purpose of this Prospectus to the extent that a statement contained herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Prospectus. Those parts of the documents incorporated by reference in this Prospectus which are not specifically incorporated by reference in this Prospectus are either not relevant for prospective investors in the Certificates or the relevant information is included elsewhere in this Prospectus. Any documents themselves incorporated by reference in the documents incorporated by reference in this Prospectus shall not form part of this Prospectus.

Copies of the documents incorporated by reference in this Base Prospectus may be obtained from the registered office of the Trustee and from the specified office of the Principal Paying Agent during usual business hours.

# STRUCTURE DIAGRAM AND CASH FLOWS

*Set out below is a simplified structure diagram and description of the principal cash flows relating to the Certificates. This does not purport to be complete and is qualified in its entirety by reference to, and must be read in conjunction with, the more detailed information appearing elsewhere in this Prospectus. Potential investors are referred to the Conditions and the detailed descriptions of the relevant Transaction Documents set out elsewhere in this Prospectus for a fuller description of certain cash flows and for an explanation of the meaning of certain capitalised terms used below. Potential investors should read this entire Prospectus carefully, especially the risks of investing in the Certificates discussed under "Risk Factors".*

## Structure Diagram




## Principal Cash Flows

### *Payments by the Certificateholders and the Trustee*

On the Issue Date, the Certificateholders will pay the issue price in respect of the Certificates to the Trustee. Pursuant to the Declaration of Trust, the Trustee will declare a trust, in favour of the Certificateholders, over:

(a) the cash proceeds of the issuance of the Certificates, pending application thereof in accordance with the terms of the Transaction Documents;

(b) all of the Trustee's rights, title, interest and benefit, present and future, in, to and under the assets from time to time constituting the Mudaraba Assets (as defined below);

(c) all of the Trustee's rights, title, interest and benefit, present and future, in, to and under the Transaction Documents (other than in relation to any representations given by the Bank (acting in any capacity) pursuant to any of the Transaction Documents and the covenant given to the Trustee by the Bank pursuant to clauses 12.1 and 12.10 of the Declaration of Trust); and

(d) all amounts standing to the credit of the Transaction Account from time to time, and all proceeds of the foregoing (together, the "**Trust Assets**").

The proceeds of the issuance of the Certificates will be contributed by the Trustee (as Rab-al-Maal) to the Mudareb on the Issue Date and shall form the initial capital of the Mudaraba (the "**Mudaraba Capital**") pursuant to the Mudaraba Agreement. The Mudaraba Capital will be co-mingled with shareholders' equity and invested, on an unrestricted co-mingling Mudaraba basis, by the Bank in its general business activities carried out through the General Mudaraba Pool and, following investment of the Mudaraba Capital, the Mudaraba Capital shall constitute *pro rata* undivided assets in the General Mudaraba Pool (the "**Mudaraba Assets**").

***Periodic payments by the Trustee***

Unless a Non-Payment Event or a Non-Payment Election has occurred, prior to each Periodic Distribution Date, the Mudareb shall distribute the profit generated by the Mudaraba to both the Trustee and the Mudareb in accordance with an agreed profit sharing ratio (99 per cent. to the Trustee (as Rab-al-Maal) and 1 per cent. to the Mudareb). The Trustee shall apply its share of the profit (if any) generated by the Mudaraba on each Periodic Distribution Date to pay the Periodic Distribution Amount due to the Certificateholders on such date.

Payments of Rab-al-Maal Mudaraba Profit (as defined in the Mudaraba Agreement) by the Bank (as Mudareb) are at the sole discretion of the Bank (as Mudareb) and may only be made in circumstances where a Non-Payment Event has not occurred. The Mudareb shall not have any obligation to make any subsequent payment in respect of such unpaid profit (whether from its own cash resources, from the Mudaraba Reserve (as defined below) or otherwise).

Under the terms of the Mudaraba Agreement, the Mudareb shall be expressly entitled to co-mingle its assets with the General Mudaraba Pool assets.

***Dissolution payments, redemption and variation by the Trustee and the Mudareb***

The Mudaraba is a perpetual arrangement with no fixed end date. Accordingly, the Certificates are perpetual securities in respect of which there is no fixed redemption date.

Subject to certain conditions set out in clause 7 of the Mudaraba Agreement, the Bank (as Mudareb) may at its option liquidate the Mudaraba in whole, but not in part, on the basis of a final constructive liquidation of the Mudaraba in the following circumstances:

(i) on the First Call Date and on any date thereafter up to and including the First Reset Date, or any Periodic Distribution Date thereafter, by giving not less than 20 nor more than 35 days' prior notice to the Trustee; or

(ii) on any date on or after the Issue Date (whether or not a Periodic Distribution Date), by giving not less than 20 nor more than 35 days' prior notice to the Trustee:

    (a) upon the occurrence of a Tax Event; or

    (b) upon the occurrence of a Capital Event.

The Bank may (acting in its sole discretion) instruct the Trustee to, whereupon the Trustee shall, upon receipt of notice in accordance with paragraph (i) above redeem all of, but not only some of, the Certificates, and upon receipt of notice in accordance with paragraph (ii) above redeem all of, but not only some of, the Certificates or vary the terms thereof, in each case by giving not less than 15 nor more than 30 days' prior notice to the Certificateholders, all as more particularly described in the Conditions, and in each case following final constructive liquidation of the Mudaraba, as described above.

The Bank (as Mudareb) and the Trustee undertake in the Mudaraba Agreement, in circumstances where the Certificates are required by the Bank to be varied upon the occurrence of a Tax Event or a Capital Event, to make such variations as are necessary to ensure that the Certificates become or, as appropriate, remain Qualifying Tier 1 Instruments.

## OVERVIEW OF THE OFFERING

*The following overview 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 overview does not contain all of the information that an investor should consider before investing in the Certificates. Each investor should read the entire Prospectus carefully, especially the risks of investing in the Certificates discussed under "Risk Factors".*

*Words and expressions defined in the Conditions shall have the same meanings in this overview.*

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| **Certificates** | U.S.$500,000,000 Tier 1 Capital Certificates. |
| **Trustee** | Boubyan Tier 1 Sukuk Limited, an exempted company incorporated with limited liability on 7 September 2020 under the laws of the Cayman Islands, with incorporation number MC-365964 with its registered office at c/o MaplesFS Limited, PO Box 1093, Queensgate House, Grand Cayman, KY1-1102, Cayman Islands. |
| **Trustee Legal Entity Identifier** | 549300Z4Q7ROZ0OUJO40 |
| **Ownership of the Trustee** | The authorised share capital of the Trustee is U.S.$50,000 consisting of 50,000 ordinary shares of U.S.$1.00 par value each, 250 of which are fully-paid and issued. The Trustee's entire issued share capital is held on trust for charitable purposes by MaplesFS Limited as share trustee under the terms of a declaration of trust. |
| **Administration of the Trustee** | The affairs of the Trustee are managed by MaplesFS Limited (the "**Trustee Administrator**"), who has agreed to perform certain management functions and provide certain clerical, administrative and other services pursuant to a corporate services agreement dated 4 March 2021 between the Trustee Administrator and the Trustee (the "**Corporate Services Agreement**"). The Trustee Administrator's registered office is PO Box 1093, Queensgate House, Grand Cayman, KY1-1102, Cayman Islands. |
| **Mudareb / Bank** | Boubyan Bank K.S.C.P. |
| **Rab-al-Maal** | Boubyan Tier 1 Sukuk Limited. |
| **Risk Factors** | Certain factors may affect the Trustee's ability to fulfil its obligations under the Certificates and the Bank's ability to fulfil its obligations under the Transaction Documents. In addition, certain factors are material for the purpose of assessing the market risks associated with the Certificates. These are set out under "*Risk Factors*". |
| **Joint Global Co-ordinators** | Citigroup Global Markets Limited, Standard Chartered Bank and Watani Investment Company K.S.C.C. (known as "**NBK Capital**"). |
| **Joint Lead Managers** | Abu Dhabi Islamic Bank PJSC, Boubyan Capital Investment Company K.S.C., Citigroup Global Markets Limited, Emirates NBD Bank P.J.S.C., Kamco Investment Company K.S.C.P., KFH |

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| | Capital Investment Company K.S.C.C., Kuwait International Bank K.S.C.P., Standard Chartered Bank and NBK Capital. |
| **Delegate** | Citibank, N.A., London Branch.<br>Pursuant to the Declaration of Trust, the Trustee shall delegate to the Delegate certain of the present and future powers, trusts, authorities and discretions vested in the Trustee by certain provisions of the Declaration of Trust. In particular, the Delegate shall be entitled to (and, in certain circumstances, shall, subject to being requested and indemnified and/or secured and/or pre-funded to its satisfaction, be obliged to) take enforcement action in the name of the Trustee against the Mudareb and/or the Bank following a Bank Event. |
| **Principal Paying Agent, Calculation Agent and Transfer Agent** | Citibank, N.A., London Branch. |
| **Registrar** | Citigroup Global Markets Europe AG. |
| **Summary of the transaction structure and Transaction Documents** | An overview of the structure of the transaction and the principal cash flows is set out under "*Structure Diagram and Cash Flows*" and a description of the principal terms of certain of the Transaction Documents is set out under "*Summary of the Principal Transaction Documents*". |
| **Issue Date** | 1 April 2021. |
| **Issue Price** | 100 per cent. of the aggregate face amount of the Certificates. |
| **Periodic Distribution Dates** | 1 April and 1 October every year, commencing on 1 October 2021. |
| **Periodic Distributions** | Subject to Condition 8 (*Periodic Distribution Restrictions*), Periodic Distribution Amounts shall be payable on each Periodic Distribution Date up to and including the First Reset Date at a rate of 3.950 per cent. per annum. If the Certificates are not redeemed or purchased and cancelled in accordance with the Conditions on or prior to the First Reset Date, Periodic Distribution Amounts shall be payable on each Periodic Distribution Date after the First Reset Date (subject as aforesaid) at a fixed rate, to be reset on the First Reset Date and every six years thereafter, equal to the Relevant Six Year Reset Rate plus a margin of 2.896 per cent. per annum.<br>If the Bank makes a Non-Payment Election or a Non-Payment Event occurs, the Trustee shall not pay the corresponding Periodic Distribution Amounts (or any part thereof, as applicable) and neither the Bank nor the Trustee shall have any obligation to make any subsequent payment in respect of any unpaid Periodic Distribution Amount as more particularly described in Condition 8 (*Periodic Distribution Restrictions*). In such circumstances, distributions will not be cumulative and any distributions which are not paid will not accumulate or compound and the |

Certificateholders will have no right to receive such distributions at any time, even if other distributions are paid in the future.

**Form of Certificates**

The Certificates will be issued in registered form as described in "*Global Certificate*". The Certificates will be represented on issue by ownership interests in a Global Certificate which will be deposited with, and registered in the name of a nominee of, a common depositary for Euroclear and Clearstream, Luxembourg. Ownership interests in the Global Certificate will be shown on, and transfers thereof will only be effected through, records maintained by each relevant clearing system and its participants. Definitive Certificates evidencing a holding of Certificates will be issued in exchange for interests in the Global Certificate only in limited circumstances.

**Clearance and Settlement**

Certificateholders must hold their interest in the Global Certificate in book-entry form through Euroclear or Clearstream, Luxembourg. Transfers within and between Euroclear and Clearstream, Luxembourg will be in accordance with the usual rules and operating procedures of the relevant clearing systems.

**Denomination of the Certificates**

The Certificates will be issued in registered form in face amounts of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof.

**Status of the Certificates**

Each Certificate will represent an undivided ownership interest in the Trust Assets, will be a limited recourse obligation of the Trustee and will rank *pari passu* without any preference or priority with all other Certificates; see Condition 4.1 (*Status*).

The Relevant Obligations will (a) constitute Tier 1 Capital of the Bank, (b) constitute direct, unsecured, conditional and subordinated obligations of the Bank, (c) rank subordinate to all Senior Obligations (as defined in the Conditions), (d) rank *pari passu* with all other Pari Passu Obligations (as defined in the Conditions) and (e) rank in priority to all Junior Obligations (as defined in the Conditions); see Condition 4.2 (*Subordination*).

**Trust Assets**

The Trust Assets consist of:

(1) the cash proceeds of the issue of the Certificates, pending application thereof in accordance with the terms of the Transaction Documents;

(2) all of the Trustee's rights, title, interest and benefit, present and future, in, to and under the assets from time to time constituting the Mudaraba Assets;

(3) all of the Trustee's rights, title, interest and benefit, present and future, in, to and under the Transaction Documents (other than in relation to any representations given by the Bank (acting in any capacity) pursuant to any of the Transaction Documents and the covenants given to the Trustee pursuant to clauses 12.1 and 12.10 of the Declaration of Trust); and

(4) all amounts standing to the credit of the Transaction Account from time to time,

and all proceeds of the foregoing, which will be held by the Trustee upon trust absolutely for and on behalf of the Certificateholders *pro rata* according to the face amount of Certificates held by each such Certificateholder in accordance with the Declaration of Trust and the Conditions.

**Redemption of Certificates and variation of their terms**

The Certificates are perpetual securities and accordingly do not have a fixed or final redemption date. The Certificates may be redeemed in whole but not in part, or the terms thereof may be varied by the Trustee (but only upon the instructions of the Bank (acting in its sole discretion)) only in accordance with the provisions of Condition 10 (*Redemption and Variation*).

Pursuant to Condition 10.1(b) (*Trustee's Call Option*), the Trustee may (but only upon the instructions of the Bank (acting in its sole discretion)), on the First Call Date and on any date thereafter up to and including the First Reset Date, or on any Periodic Distribution Date thereafter, redeem all, but not some only, of the Certificates at the Trustee Call Amount.

In addition (on any date on or after the Issue Date, whether or not a Periodic Distribution Date), upon the occurrence of a Tax Event or a Capital Event, all but not some only, of the Certificates may be redeemed or the terms of the Certificates may be varied, in each case in accordance with Conditions 10.1(c) (*Redemption or Variation due to Taxation*) and 10.1(d) (*Redemption or Variation for Capital Event*).

Any redemption of the Certificates is subject to the conditions described in Condition 10.1 (*Redemption and variation*).

**Cancellation or Write-down at the Point of Non-Viability**

If a Non-Viability Event (as defined in the Conditions) occurs, a Write-down (as defined herein) shall occur on the relevant Non-Viability Event Write-down Date (as defined herein), as more particularly described in Condition 11 (*Write-down at the Point of Non-Viability*). In such circumstances, the Certificateholders' rights to the Trust Assets shall automatically be deemed to be irrevocably and unconditionally written-down in the same manner as the Certificates and the Certificates shall be cancelled (in the case of a Write-down in whole) or written-down in part on a *pro rata* basis (in the case of a Write-down in part) by the Trustee in accordance with the prevailing Capital Regulations. See Condition 11 (*Write-down at the Point of Non-Viability*).

**Dissolution Events**

Subject to Condition 12 (*Dissolution Events and Winding-up*), if a Bank Event occurs and, if so requested in writing by the Certificateholders of at least one-fifth of the then aggregate face amount of the Certificates outstanding or if so directed by an Extraordinary Resolution of the Certificateholders in accordance with Condition 12.1 (*Bank Events*), the Trustee and/or the

Delegate shall, subject to Condition 12.3 (*Winding-up, dissolution or liquidation*), take the actions referred to therein.

**Withholding Tax**

Subject to Condition 9.2 (*Payments subject to Applicable Laws*) and Condition 13 (*Taxation*), all payments in respect of the Certificates by or on behalf of the Trustee shall be made free and clear of and without withholding or deduction for, or on account of, any Taxes (as defined in Condition 13 (*Taxation*)), unless the withholding or deduction of the Taxes is required by law. In such event, the Trustee will pay (subject to certain specified exclusions) Additional Amounts (as defined in the Conditions) so that the full amount which otherwise would have been due and payable under the Certificates in the absence of such deduction or withholding is received by the parties entitled thereto.

In addition, the Transaction Documents provide that payments thereunder by the Bank (in its capacity as the Mudareb) shall be made free and clear of and without withholding or deduction, for and on account of, any Taxes, unless such withholding or deduction is required by law and, in such case, provide for the payment by the Bank of additional amounts so that the full amount which would otherwise have been due and payable is received by the Trustee.

Notwithstanding any other provision of the Conditions, the Trustee and the Paying Agents shall be permitted to withhold or deduct any amounts imposed pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**"), or otherwise imposed pursuant to Sections 1471 through 1474 of the Code (or any regulations thereunder or official interpretations thereof), or an intergovernmental agreement between the United States and another jurisdiction facilitating the implementation thereof, implementing legislation adopted by another jurisdiction in connection with these provisions, or any agreement with the U.S. Internal Revenue Service (or any fiscal or regulatory legislation, rules or practices implementing such an intergovernmental agreement) (any such withholding or deduction, a "**FATCA withholding**"). None of the Trustee, the Delegate or any Agent will have any obligation to pay Additional Amounts or otherwise indemnify a Certificateholder for any FATCA withholding deducted or withheld by the Trustee, a Paying Agent or any other party as a result of any person not being entitled to receive payments free of FATCA withholding.

**Trustee Covenants**

The Trustee has agreed to certain restrictive covenants as set out in Condition 6 (*Covenants*).

**Ratings**

The Bank has been assigned long term ratings of "A+" with a negative outlook by Fitch, "A3" with a stable outlook by Moody's and "A-" with a stable outlook by Standard & Poor's.

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| | A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.<br>The Certificates will not be rated by any rating organisation upon their issue. |
| **Certificateholder Meetings** | A summary of the provisions for convening meetings of the Certificateholders to consider matters relating to their interests as such is set out in Condition 18 (*Meetings of Certificateholders, Modification, Waiver, Authorisation and Determination*). |
| **Tax Considerations** | See "*Taxation*" for a description of certain tax considerations applicable to the Certificates. |
| **Listing and Admission to Trading** | Application has been made to Euronext Dublin for the Certificates to be admitted to listing on the Official List and for the Certificates to be admitted to trading on the regulated market of Euronext Dublin. |
| **Transaction Documents** | The Declaration of Trust, the Agency Agreement and the Mudaraba Agreement (and any other agreements, deeds, undertakings or other documents designated as such by the parties thereto) are referred to herein as the "**Transaction Documents**". |
| **Governing Law** | The Declaration of Trust, the Certificates, the Conditions, the Agency Agreement, the Mudaraba Agreement and any non-contractual obligations arising out of or in connection with them will be governed by, and construed in accordance with, English law.<br>The Corporate Services Agreement and the Share Declaration of Trust and any non-contractual obligations arising out of or in connection with them will be governed by, and construed in accordance with, the laws of the Cayman Islands. |
| **Waiver of Immunity** | To the extent that the Bank may claim for itself or its assets or revenues immunity from jurisdiction, enforcement, prejudgment proceedings, injunctions and any other legal or arbitral proceedings and relief and to the extent that such immunity (whether or not claimed) may be attributed to it or any of its assets or revenues, the Bank will agree in the Transaction Documents not to claim and will irrevocably and unconditionally waive such immunity in relation to any legal proceedings. Further, the Bank will irrevocably and unconditionally consent to the giving of any relief or the issue of any process, including, without limitation, jurisdiction, enforcement, prejudgment proceedings and injunctions in connection with any legal proceedings See Condition 21.4 (*Waiver of Immunity*). |
| **Limited Recourse** | Proceeds of the Trust Assets are the sole source of payments on the Certificates. Save as otherwise provided in Condition 4.4 (*Limited Recourse and Agreement of Certificateholders*), the Certificates do not represent an interest in any of the Trustee, the |

Delegate, the Bank, any of the Agents or any of their respective affiliates.

If the net proceeds of the realisation of, or enforcement with respect to, the Trust Assets are not sufficient to make all payments due in respect of the Certificates, Certificateholders will have no recourse to any assets of the Trustee (other than the Trust Assets in the manner contemplated in the Transaction Documents) or of the Delegate or the Agents (to the extent that each of the Delegate and the Agents (as applicable) fulfils all of its respective obligations under the Transaction Documents to which it is a party) or any of their respective affiliates in respect of any shortfall in the expected amounts from the Trust Assets.

The Bank is obliged to make certain payments under the Transaction Documents directly to or to the order of the Trustee. Such payment obligations form part of the Trust Assets and the Trustee and/or the Delegate will, subject to Condition 4.2 (*Subordination*) and Condition 12.3 (*Winding-up, dissolution or liquidation*), have direct recourse against the Bank to recover payments due to the Trustee from the Bank pursuant to such Transaction Documents notwithstanding any other provision of Condition 4.4 (*Limited Recourse and Agreement of Certificateholders*). Such right of the Trustee and the Delegate shall constitute an unsecured claim against the Bank. None of the Certificateholders, the Trustee or the Delegate shall be entitled to claim any priority right in respect of any specific assets of the Bank in connection with the enforcement of any such claim.

See Condition 4.4 (*Limited Recourse and Agreement of Certificateholders*) for further details.

**Selling Restrictions**

There are restrictions on the distribution of this Prospectus and the offer or sale of Certificates in the United States, the United Kingdom, the EEA, the Cayman Islands, the UAE (excluding the Dubai International Financial Centre), the Dubai International Financial Centre, Kuwait, the Kingdom of Bahrain, the Kingdom of Saudi Arabia, the State of Qatar (including the Qatar Financial Centre), Japan, Hong Kong, Malaysia, Singapore and Switzerland. See "*Subscription and Sale*".

**Use of Proceeds**

The proceeds of the issue of the Certificates will be contributed by the Trustee (as Rab-al-Maal) to the Bank (as Mudareb) as Mudaraba Capital pursuant to the terms of the Mudaraba Agreement as described in "*Use of Proceeds*".

# TERMS AND CONDITIONS OF THE TIER 1 CAPITAL CERTIFICATES

*The following (except for the text in italics) is the text of the Terms and Conditions of the Certificates which (subject to modification and except for the text in italics) will be endorsed on each Certificate in definitive form (if issued) and will, save as provided in "Global Certificate", apply to the Global Certificate:*

Boubyan Tier 1 Sukuk Limited (in its capacity as issuer and in its capacity as trustee, as applicable, the "**Trustee**", which expression shall where the context allows include the Delegate (as defined below) acting pursuant to the powers delegated to it by the Trustee pursuant to the Declaration of Trust (as defined below)) has issued Tier 1 Capital Certificates (the "**Certificates**") in an aggregate face amount of U.S.$500,000,000. The Certificates are constituted by a declaration of trust (the "**Declaration of Trust**") dated 1 April 2021 (the "**Issue Date**") made between the Trustee, Boubyan Bank K.S.C.P. (the "**Bank**") and Citibank, N.A., London Branch as the delegate of the Trustee (the "**Delegate**", which expression shall include all persons for the time being appointed as the delegate or delegates under the Declaration of Trust).

Payments relating to the Certificates will be made pursuant to an agency agreement dated the Issue Date (the "**Agency Agreement**") made between the Trustee, the Bank, the Delegate, Citibank, N.A., London Branch as principal paying agent (in such capacity, the "**Principal Paying Agent**" and together with any further or other paying agents appointed from time to time in respect of the Certificates, the "**Paying Agents**"), as transfer agent (in such capacity, the "**Transfer Agent**" and, together with the Registrar (as defined below) and any further or other transfer agents appointed from time to time in respect of the Certificates, the "**Transfer Agents**") and as calculation agent (the "Calculation Agent", which expression includes the Calculation Agent for the time being), and Citigroup Global Markets Europe AG as registrar (in such capacity, the "**Registrar**"). The Paying Agents, the Transfer Agents and the Calculation Agent are together referred to in these terms and conditions (the "**Conditions**") as the "**Agents**". References to the "Agents" or any of them shall include their successors.

These Conditions include summaries of, and are subject to, the detailed provisions of the Transaction Documents (as defined in Condition 1 (*Interpretation*)). Copies of the Transaction Documents are available for inspection and/or collection during normal business hours at the specified offices of the Principal Paying Agent. The Certificateholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Transaction Documents applicable to them.

Each initial Certificateholder, by its acquisition and holding of its interest in a Certificate, shall be deemed to authorise and direct the Trustee, on behalf of the Certificateholders: (i) to contribute the sums paid by it in respect of its Certificate(s) to the Mudareb (as defined in Condition 5 (*The Trust*)) in accordance with the Mudaraba Agreement (as defined in Condition 5 (*The Trust*)); (ii) to act as Rab-al-Maal (as defined in Condition 5 (*The Trust*)) pursuant to the Mudaraba Agreement on its behalf (which authorisation and direction shall also apply to its successors in title and any Substituted Trustee (as defined below)); and (iii) to enter into each Transaction Document, subject to the provisions of the Declaration of Trust and these Conditions.

## 1 Interpretation

Words and expressions defined in the Declaration of Trust and the Agency Agreement shall have the same meanings where used in these Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of any inconsistency between any such document and these Conditions, these Conditions will prevail. In addition, in these Conditions the following expressions have the following meanings:

"**Additional Amounts**" has the meaning given to it in Condition 13 (*Taxation*);

"**Applicable Regulatory Capital Requirements**" means any requirements contained in the Capital Regulations for the maintenance of capital from time to time applicable to the Bank, including transitional rules and waivers granted in respect of the foregoing;

"**Authorised Denomination**" has the meaning given to that term in Condition 2.1 (*Form and Denomination*);

"**Authorised Signatory**" means any person who: (a) holds the office of Chairman or Vice-Chairman of the Bank from time to time, or (b) is duly authorised by the Bank to sign documents on its behalf;

"**Bank Event**" means any of the following events:

(i) **Non-payment**: the Bank (acting in its capacity as Mudareb) fails to pay an amount which is equivalent to principal or profit (including Additional Amounts) due and payable by it pursuant to the Mudaraba Agreement and the failure continues for a period of (in the case of principal) five days or (in the case of profit) 14 days (save in each case where such failure occurs solely as a result of the occurrence of a Non-Payment Election or a Non-Payment Event); or

(ii) **Winding-up**: an order is made or an effective resolution is passed for the winding-up or dissolution or administration of the Bank or the Bank applies or petitions for a winding-up or administration order in respect of itself except, in each case, for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation on terms approved by the Delegate (acting in accordance with the Declaration of Trust and these Conditions) or by an Extraordinary Resolution of the Certificateholders; or

(iii) **Analogous Event**: any event occurs which under the laws of the State of Kuwait has an analogous effect to any of the events referred to in paragraph (ii) above;

"**Basel III**" means the reforms to the international regulatory capital framework issued by the Basel Committee (including, but not limited to, the Basel III Documents) as part of a package of new capital and liquidity requirements intended to reinforce capital standards and to establish minimum liquidity standards for international credit institutions (including guidance on the eligibility criteria for tier 1 capital instruments and tier 2 capital instruments);

"**Basel III Documents**" means the Basel Committee document *"A global regulatory framework for more resilient banks and banking systems"* released by the Basel Committee on 16 December 2010 and revised in June 2011 and the Annex contained in its document *"Basel Committee issues final elements of the reforms to raise the quality of regulatory capital"* on 13 January 2011;

"**Basel Committee**" means the Basel Committee on Banking Supervision;

"**Business Day**" means a day, other than a Friday, Saturday, Sunday or public holiday, on which registered banks settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in Kuwait, New York City and London;

"**Capital Event**" is deemed to have occurred if the Bank is notified in writing by the Financial Regulator to the effect that the outstanding face amount (or the amount that qualifies as regulatory capital, if some amount of the Certificates is held by the Bank or whose purchase is funded by the Bank) of the Certificates is excluded (in full or in part) from the consolidated Tier 1 Capital of the Bank (save where such non-qualification is only as a result of any applicable limitation on the amount of such capital);

"**Capital Event Profit Amount**" means, on the date of final constructive liquidation of the Mudaraba pursuant to subclause 7.3(c) of the Mudaraba Agreement, an amount equal to one per cent. of the Mudaraba Capital on such date;

“**Capital Event Redemption Amount**” in relation to a Certificate means 100 per cent. of its outstanding face amount together with any Outstanding Payments;

“**Capital Regulations**” means, at any time, the regulations, requirements, guidelines and policies relating to capital adequacy then in effect in the State of Kuwait, including those of the Financial Regulator, including, without limitation, the Instructions, and, in each case, as amended, supplemented or superseded from time to time;

“**Certificateholder**” means a person in whose name a Certificate is registered in the Register (or in the case of joint Certificateholders, the first named thereof) and the expressions holder and holder of Certificates and related expressions shall (where appropriate) be construed accordingly;

“**Code**” means the U.S. Internal Revenue Code of 1986, as amended;

“**Common Equity Tier 1 Capital**” means capital of the Bank qualifying as, and approved by the Financial Regulator as, or capital which would, but for any applicable limitation on the amount of such capital, qualify as common equity tier 1 capital in accordance with the Capital Regulations;

“**Day-count Fraction**” means the actual number of days in the relevant period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months and, in the case of an incomplete month, the number of days elapsed of the Periodic Distribution Period in which the relevant period falls (including the first such day but excluding the last));

“**Dispute**” has the meaning given to it in Condition 21.2 (*Arbitration*);

“**Dissolution Distribution Amount**” means the Trustee Call Amount, the Capital Event Redemption Amount or the Tax Event Redemption Amount, as the case may be, or such other amount in the nature of a redemption amount as may be determined in accordance with these Conditions;

“**Dissolution Event**” means a Bank Event and/or a Trustee Event;

“**Dissolution Notice**” has the meaning given to it in Condition 12.1 (*Bank Events*);

“**Dissolution Request**” has the meaning given to it in Condition 12.1 (*Bank Events*);

“**Distributable Funds**” means the aggregate of the Bank’s

(a) consolidated retained earnings and reserves after the transfer of any amounts to non-distributable reserves; and

(b) profits (after the transfer of any amounts to non-distributable reserves, if applicable),

less any prior distribution of Rab-al-Maal Mudaraba Profit calculated and paid by reference to the most recent annual audited or (as the case may be) auditor reviewed consolidated financial statements of the Bank, and in the case of each of (a) and (b):

(i) as set out in such audited consolidated financial statements or (as the case may be) auditor reviewed consolidated financial statements; and

(ii) to the extent not restricted from distribution by applicable law,

subject as otherwise defined in the Capital Regulations from time to time;

“**Euronext Dublin**” means the Irish Stock Exchange plc trading as Euronext Dublin;

“**Existing Tier 1 Securities**” means the U.S.$250,000,000 Tier 1 Capital Certificates issued by Boubyan Tier 1 Capital SPC Limited on 16 May 2016 with ISIN XS1407089926;

"**Extraordinary Resolution**" has the meaning given to it in the Declaration of Trust;

"**Final Mudaraba Profit**" has the meaning given to it in the Mudaraba Agreement;

"**Financial Regulator**" means the Central Bank of the State of Kuwait and/or any successor entity having primary bank supervisory authority with respect to the Bank in the State of Kuwait;

"**First Call Date**" means the date falling six months prior to the First Reset Date;

"**First Mudaraba Profit Distribution Date**" means 1 October 2021;

"**First Reset Date**" means 1 April 2027;

"**General Mudaraba Pool**" has the meaning given to it in the Mudaraba Agreement;

"**H.15 (519)**" means the weekly statistical release designated as such, or any successor or replacement publication, published by the Board of Governors of the United States Federal Reserve System and "**most recent H.15 (519)**" means the H.15 (519) published closest in time but prior to the applicable U.S. Securities Determination Date. H.15 (519) may be currently obtained at the following website: https://www.federalreserve.gov/releases/h15/;

"**Initial Period**" means the period from (and including) the Issue Date to (but excluding) the First Reset Date;

"**Initial Periodic Distribution Rate**" has the meaning given to it in Condition 7.4(a) (*Periodic Distribution Rate*);

"**Instructions**" means the final instructions entitled "*Capital Adequacy Ratio Standard – Basel III – for Islamic banks*" issued by the Financial Regulator on 24 June 2014, as may be amended, supplemented or superseded from time to time;

"**Junior Obligations**" means all claims of the holders of Ordinary Shares and all payment obligations of the Bank in respect of its Common Equity Tier 1 Capital and any other subordinated payment obligations of the Bank which rank, or are expressed to rank, junior to the Relevant Obligations;

"**LCIA**" means the London Court of International Arbitration;

"**Margin**" means 2.896 per cent. per annum;

"**Mudaraba**" has the meaning given to it in Condition 5 (*The Trust*);

"**Mudaraba Agreement**" has the meaning given to it in Condition 5 (*The Trust*);

"**Mudaraba Assets**" has the meaning given to it in Condition 5 (*The Trust*);

"**Mudaraba Capital**" has the meaning given to it in Condition 5 (*The Trust*);

"**Mudaraba End Date**" means the date on which the Mudaraba ends, being the date on which the Certificates are redeemed in whole but not in part in accordance with these Conditions;

"**Mudaraba Profit**" has the meaning given to that term in the Mudaraba Agreement;

"**Mudaraba Profit Distribution Date**" means 1 April and 1 October in each year, starting on (and including) the First Mudaraba Profit Distribution Date;

"**Mudaraba Reserve**" has the meaning given to it in the Mudaraba Agreement;

"**Mudareb**" has the meaning given to it in Condition 5 (*The Trust*);

"**Non-Payment Election**" has the meaning given to it in Condition 8.2 (*Non-Payment Election*);

"**Non-Payment Event**" has the meaning given to it in Condition 8.1 (*Non-Payment Event*);

"**Non-Viability Event**" means that the Financial Regulator has informed the Bank in writing that it has determined that a Trigger Event has occurred;

"**Non-Viability Event Write-down Date**" shall be the date on which the Write-down will take place as specified in the Non-Viability Notice, which date shall be no later than 10 Business Days after the date of the Non-Viability Notice;

"**Non-Viability Notice**" has the meaning given to it in Condition 11.2 (*Non-Viability Notice*);

"**Ordinary Shares**" means the common shares of the Bank;

"**Outstanding Payments**" means, in relation to any amounts payable on redemption of the Certificates, an amount representing accrued and unpaid Periodic Distribution Amounts for the Periodic Distribution Period during which redemption occurs to the date of redemption plus Additional Amounts thereon, if any, and if the Certificates are redeemed following a Capital Event and prior to the First Call Date, shall include a further profit amount in an amount equal to the Capital Event Profit Amount;

"**Pari Passu Obligations**" means the Bank's payment obligations under the transaction documents relating to the Existing Tier 1 Securities and all other subordinated payment obligations of the Bank which rank, or are expressed to rank, *pari passu* with the Relevant Obligations;

"**Payment Business Day**" has the meaning given to it in Condition 9.4 (*Payment only on a Payment Business Day*);

"**Periodic Distribution Amount**" has the meaning given to it in Condition 7.2 (*Periodic Distribution Amounts*);

"**Periodic Distribution Date**" means 1 April and 1 October in each year, starting on (and including) 1 October 2021;

"**Periodic Distribution Period**" means the period beginning on (and including) the Issue Date and ending on (but excluding) the first Periodic Distribution Date and each successive period beginning on (and including) a Periodic Distribution Date and ending on (but excluding) the next succeeding Periodic Distribution Date;

"**Person**" means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

"**Potential Dissolution Event**" means an event which, with the giving of notice, lapse of time, determination of materiality or fulfilment of any other applicable condition (or any combination of the foregoing), would constitute a Dissolution Event;

"**Proceedings**" has the meaning given to it in Condition 21.3 (*Appointment of Process Agent*);

"**Profit Rate**" means, in respect of the Initial Period, the Initial Periodic Distribution Rate, and, in respect of each Reset Period thereafter, the rate calculated in accordance with the provisions of Condition 7.4(a) (*Periodic Distribution Rate*);

"**Qualifying Tier 1 Instruments**" means instruments (whether securities, trust certificates, interests in limited partnerships or otherwise) issued directly or indirectly by the Bank that:

(i) will be eligible to constitute (or would, but for any applicable limitation on the amount of such capital, constitute) Tier 1 Capital of the Bank;

(ii) have terms and conditions not materially less favourable to a Certificateholder than the Certificates (as reasonably determined by the Bank, **provided that** in making this determination the Bank is not required to take into account the tax treatment of the new instrument in the hands of all or any Certificateholder, or any transfer or similar taxes that may apply on the acquisition of the new instrument), **provided that** a certification to such effect of two Authorised Signatories of the Bank shall have been delivered to the Trustee and the Delegate prior to the variation of the terms of the instruments and upon which the Trustee and Delegate may rely without further enquiry and without liability to any person, in accordance with Condition 10.1(c) (*Redemption or Variation due to Taxation*) or Condition 10.1(d) (*Redemption or Variation for Capital Event*), as applicable;

(iii) will constitute direct or indirect (whether by a guarantee or equivalent support undertaking) obligations of the Bank;

(iv) rank, on a winding-up of the Bank, at least *pari passu* with the Relevant Obligations;

(v) have at least the same face value amount and profit distribution dates as the Certificates and at least equal profit or distribution rate or rate of return as the Certificates;

(vi) are listed on the same stock exchange as the Certificates (if the Certificates were so listed immediately prior to the variation);

(vii) have, to the extent such payment is not cancelled, the same claim to accrued but unpaid distributions;

(viii) (where the instruments are varied prior to the First Reset Date) have the same first reset date as the Certificates;

(ix) have the same optional redemption dates as the Certificates, save that any right to redeem the Certificates prior to the sixth anniversary of the Issue Date may be disapplied if such right to redeem would cause a Capital Event; and

(x) preserve the Relevant Obligations upon any redemption of the Certificates and the ranking of any claims in a winding-up or dissolution of the Bank, and which may include such technical changes as necessary to reflect the requirements of Tier 1 Capital under the Capital Regulations then applicable to the Bank (including, without limitation, such technical changes as may be required in the adoption and implementation of Basel III);

"**Rab-al-Maal**" has the meaning given to it in Condition 5 (*The Trust*);

"**Rab-al-Maal Mudaraba Profit**" has the meaning given to it in the Mudaraba Agreement;

"**Rab-al-Maal Final Mudaraba Profit**" has the meaning given to it in the Mudaraba Agreement;

"**Record Date**" means in the case of the payment of a Periodic Distribution Amount, the date falling on the fifteenth day before the relevant Periodic Distribution Date and, in the case of the payment of a Dissolution Distribution Amount, the date falling two Payment Business Days before the date for payment of the relevant Dissolution Distribution Amount, as the case may be;

"**Register**" has the meaning given to it in Condition 2.1 (*Form and Denomination*);

"**Registered Account**" has the meaning given to it in Condition 9.1 (*Payments in respect of the Certificates*);

"**Relevant Date**" in respect of a Certificate means (a) the date on which payment in respect of such Certificate first becomes due or (b) if the full amount of the money payable has not been received by the Principal Paying Agent or the Delegate on or before the due date, the date on which, the full amount of the money having been so received, notice to that effect has been duly given to Certificateholders in accordance with Condition 17 (*Notices*);

"**Relevant Jurisdiction**" means the Cayman Islands (in the case of any payment made by the Trustee) and the State of Kuwait (in the case of any payment made by the Bank) or, in each case, any political sub-division or authority thereof or therein having the power to tax;

"**Relevant Obligations**" has the meaning given to it in Condition 4.2 (*Subordination*);

"**Relevant Six Year Reset Rate**" means, in respect of each Reset Period: (i) a rate (expressed as a decimal) determined on the relevant U.S. Securities Determination Date to be the per annum rate equal to the weekly average yield to maturity for U.S. Treasury securities with a maturity of six years and trading in the public securities markets; or (ii) if there is no such published U.S. Treasury security with a maturity of six years and trading in the public securities markets, then the rate will be determined on the relevant U.S. Securities Determination Date by interpolation between the most recent weekly average yield to maturity for two series of U.S. Treasury securities trading in the public securities markets: (A) one maturing as close as possible to, but earlier than, the immediately following Reset Date; and (B) the other maturing as close as possible to, but later than, the immediately following Reset Date, in each case as published in the most recent H.15 (519). If the Bank cannot procure the determination of the Relevant Six Year Reset Rate on the relevant U.S. Securities Determination Date pursuant to the methods described in (i) and (ii) above, then the Relevant Six Year Reset Rate will be: (i) equal to the rate applicable to the immediately preceding Reset Period; or (ii) in the case of the Reset Period commencing on the First Reset Date, 1.054 per cent.;

"**Reserved Matter**" has the meaning given to it in the Declaration of Trust;

"**Reset Date**" means the First Reset Date and every sixth anniversary thereafter;

"**Reset Period**" means the period from (and including) the First Reset Date to (but excluding) the earlier of (a) the Mudaraba End Date and (b) the following Reset Date, and (if applicable) each successive period thereafter from (and including) such Reset Date to (but excluding) the earlier of (x) the Mudaraba End Date and (y) the next succeeding Reset Date;

"**Rules**" has the meaning given to it in Condition 21.2 (*Arbitration*);

"**Senior Creditors**" means creditors of the Bank (including depositors (in respect of their due claims) and, for this purpose, holders of any instrument issued by, or other obligation of, the Bank which ranks senior to the claims of the Trustee in respect of the Relevant Obligations) other than creditors in respect of obligations the claims in relation to which rank or are expressed to rank *pari passu* with, or junior to, the claims of the Trustee in respect of the Relevant Obligations;

"**Senior Obligations**" means all unsubordinated payment obligations of the Bank (including payment obligations to the Bank's depositors, which include as at the date hereof holders of current accounts, saving investment accounts, fixed-term deposit investment accounts and open-term deposit investment accounts) and all subordinated payment obligations (if any) of the Bank except Pari Passu Obligations and Junior Obligations;

"**Subsidiary**" means, in relation to any Person (the "**first person**") at any particular time, any other Person (the "**second person**") whose affairs and policies the first Person controls or has the power to control, whether by ownership or share capital, contract, the power to appoint or remove members of the governing body of the second Person or otherwise;

"**Substituted Territory**" has the meaning given to it in Condition 12.2 (*Trustee Events*);

"**Substituted Trustee**" has the meaning given to it in Condition 12.2 (*Trustee Events*);

"**Taxes**" has the meaning given to it in Condition 13 (*Taxation*);

"**Tax Event**" means the Bank or the Trustee (as the case may be) would, as a result of a Tax Law Change, in making any payments under the Mudaraba Agreement (in the case of the Bank (in its capacity as Mudareb)) on the next due date for a payment of Mudaraba Profit or the Certificates (in the case of the Trustee) on the next due date for payment of a Periodic Distribution Amount (as the case may be) (whether or not a Non-Payment Event has occurred or a Non-Payment Election has been made), be required to pay Additional Amounts or additional amounts under clause 5.11 of the Mudaraba Agreement (and such requirement cannot be avoided by the Bank or the Trustee (as the case may be) taking reasonable measures available to it);

"**Tax Event Redemption Amount**" in relation to a Certificate, means 100 per cent. of its outstanding face amount together with any Outstanding Payments;

"**Tax Law Change**" means any change in, or amendment to, the laws, published practice or regulations of any Relevant Jurisdiction, or any change in the application or official interpretation of such laws, published practice or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective (or, in the case of application or official interpretation, is announced) on or after 29 March 2021);

"**Tier 1 Capital**" means capital other than Common Equity Tier 1 Capital qualifying as (or which would qualify as, but for any applicable limitation on the amount of such capital), and approved by the Financial Regulator as, tier 1 capital in accordance with the Capital Regulations;

"**Tier 2 Capital**" means capital qualifying as (or which would qualify as, but for any applicable limitation on the amount of such capital), and approved by the Financial Regulator as, tier 2 capital in accordance with the Capital Regulations;

"**Transaction Account**" has the meaning given to it in Condition 5 (*The Trust*);

"**Transaction Documents**" means each of the Declaration of Trust, the Agency Agreement, the Mudaraba Agreement and any other agreements, deeds, undertakings or other documents designated as such by the parties thereto;

"**Trigger Event**" has the meaning given to it in the Instructions;

*For the definition of "Trigger Event" as set out in the Instructions, see "Overview of Banking and Finance Regulations in Kuwait – Certain Banking Regulations – Capital Adequacy Regulations";*

"**Trust Assets**" has the meaning given to it in Condition 5 (*The Trust*);

"**Trustee Call Amount**" in relation to a Certificate, means 100 per cent. of its outstanding face amount together with any Outstanding Payments;

"**Trustee Event**" means any of the following events:

(i) **Non-Payment**: default is made in the payment of the Dissolution Distribution Amount, or default is made in the payment of any Periodic Distribution Amount, in each case, on the due date for payment thereof and, in the case of any Periodic Distribution Amount only, such default continues for a period of five days; or

(ii) **Winding-up**: an order is made or an effective resolution is passed for the winding-up or dissolution or administration of the Trustee or the Trustee applies or petitions for a winding-up or administration order in respect of itself except, in each case, for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation on terms approved by the Delegate (acting in accordance with the Declaration of Trust and these Conditions) or by an Extraordinary Resolution of the Certificateholders; or

(iii) **Analogous Event**: any event occurs that under the laws of the Cayman Islands has an analogous effect to any of the events referred to in paragraph (ii) above.

For the purpose of subparagraph (i) above, all amounts payable in respect of the Certificates shall be considered due and payable (including any amounts calculated as being payable under Condition 7.4 (*Periodic Distributions*)) notwithstanding that the Trustee has at the relevant time insufficient funds or relevant Trust Assets to pay such amounts including, without limitation, as a result of any failure by the Mudareb to comply with the matters described in Condition 4.4(c) (*Limited Recourse and Agreement of Certificateholders*) (save in each case where such insufficient funds arise solely as a result of the occurrence of a Non-Payment Event or a Non-Payment Election);

"**Trustee's Territory**" has the meaning given to it in Condition 12.2 (*Trustee Events*);

"**U.S.**" means the United States of America;

"**U.S. Government Securities Business Day**" means any day except for a Saturday, Sunday or a day on which the U.S. Securities Industry and Financial Markets Association recommends that the fixed income departments of its members be closed for the entire day for purposes of trading in U.S. government securities;

"**U.S. Securities Determination Date**" means the second U.S. Government Securities Business Day before the commencement of the Reset Period for which the rate will apply; and

"**Write-down**" means:

(i) the Certificateholders' rights to the Trust Assets (including the Mudaraba Assets) shall automatically be deemed to be irrevocably and unconditionally cancelled (in the case of a Write-down in whole) or written-down in part (in the case of a Write-down in part) in the same manner as the Certificates;

(ii) the Certificates shall be cancelled (in the case of a Write-down in whole) or written-down in part on a *pro rata* basis (in the case of a Write-down in part) by the Trustee in accordance with the prevailing Capital Regulations; and

(iii) all rights of any Certificateholder for payment of any amounts under or in respect of the Certificates (including, without limitation, any amounts arising as a result of, or due and payable upon the occurrence of, a Dissolution Event) shall, as the case may be, be cancelled or written-down *pro rata* among the Certificateholders and, in each case, will not be restored under any circumstances, irrespective of whether such amounts have become due and payable prior to the date of the Non-Viability Notice or the Non-Viability Event Write-down Date and even if the Non-Viability Event has ceased,

and references herein to "written-down" will be construed accordingly.

All references in these Conditions to "**U.S. dollars**", "**U.S.$**" and "**$**" are to the lawful currency of the United States of America.

## 2 Form, Denomination and Title

### 2.1 Form and Denomination

The Certificates are issued in registered form in denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof (each an "**Authorised Denomination**"). A Certificate will be issued to each Certificateholder in respect of its registered holding of Certificates. Each Certificate will be numbered serially with an identifying number which will be recorded on the relevant Certificate and in the register of Certificateholders (the "**Register**").

*Upon issue, the Certificates will be represented by a Global Certificate which will be deposited with, and registered in the name of a nominee for, a common depositary for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream, Luxembourg**"). Ownership interests in the Global Certificate will be shown on, and transfers thereof will only be effected through, records maintained by Euroclear and Clearstream, Luxembourg (as applicable), and their respective participants. These Conditions are modified by certain provisions contained in the Global Certificate. Except in certain limited circumstances, owners of interests in the Global Certificate will not be entitled to receive definitive Certificates representing their holdings of Certificates. See "Global Certificate".*

### 2.2 Title

The Trustee will cause the Registrar to maintain the Register outside the United Kingdom in accordance with the provisions of the Agency Agreement. Title to the Certificates passes only by registration in the Register. The registered Certificateholder will (except as otherwise required by law) be treated as the absolute owner of the Certificates represented by the Certificate for all purposes (whether or not any payment thereon is overdue and regardless of any notice of ownership, trust or any interest or any writing on, or the theft or loss of, the Certificate) and no person will be liable for so treating any Certificateholder. The registered Certificateholder will be recognised by the Trustee as entitled to his Certificate free from any equity, set-off or counterclaim on the part of the Trustee against the original or any intermediate holder of such Certificate.

## 3 Transfers of Certificates

### 3.1 Transfers

Subject to Conditions 3.4 (*Closed Periods*) and 3.5 (*Regulations*) and the provisions of the Agency Agreement, a Certificate may be transferred in an Authorised Denomination only by depositing the Certificate by which it is represented, with the form of transfer on the back duly completed and signed, at the specified office of any of the Transfer Agents together with such evidence as the Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the individuals who have executed the forms of transfer.

*Transfers of interests in the Global Certificate will be effected in accordance with the rules of the relevant clearing system through which the interest is held.*

### 3.2 Delivery of New Certificates

Each new Certificate to be issued upon any transfer of Certificates will, within five business days of receipt by the relevant Transfer Agent of the duly completed form of transfer endorsed on the relevant Certificate (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations), be delivered at the specified office of the relevant Transfer Agent or mailed by uninsured mail at the risk of the holder entitled to the Certificate to the address specified in the form of transfer. For the purposes of this Condition, "**business day**" shall mean a day on which banks are open for business in the city in which the specified office of the Transfer Agent with whom a Certificate is deposited in connection with a transfer is located.

Where some but not all of the Certificates in respect of which a Certificate is issued are to be transferred, a new Certificate in respect of the Certificates not so transferred will, within five business days of receipt by the relevant Transfer Agent of the original Certificate, be mailed by uninsured mail at the risk of the holder of the Certificates not so transferred to the address of such Certificateholder appearing on the Register or as specified in the form of transfer.

### 3.3 Formalities Free of Charge

Registration of any transfer of Certificates will be effected without charge by or on behalf of the Trustee or any Transfer Agent except that the Trustee may require payment of a sum to it (or the giving of such indemnity as the Trustee or any Transfer Agent may reasonably require) to cover any stamp duty, tax or other governmental charges which may be imposed in relation to such transfer.

### 3.4 Closed Periods

No Certificateholder may require the transfer of a Certificate to be registered during the period of 15 days ending on a Periodic Distribution Date or any other date on which any payment of the face amount or payment of any premium or profit in respect of a Certificate falls due.

### 3.5 Regulations

All transfers of Certificates and entries on the Register will be made subject to the detailed regulations concerning the transfer of Certificates scheduled to the Declaration of Trust. The Regulations may be changed by the Trustee from time to time with the prior written approval of the Delegate (acting in accordance with the Declaration of Trust and these Conditions) and the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Certificateholder who requests a copy of such regulations.

The Certificateholders shall be entitled to receive, in accordance with Condition 3.2 (*Delivery of New Certificates*), only one Certificate in respect of his entire holding of Certificates. In the case of a transfer of a portion of the face amount of a Certificate, a new Certificate in respect of the balance of the Certificates not transferred will be issued to the transferor in accordance with Condition 3.2 (*Delivery of New Certificates*).

## 4 Status, Subordination and Limited Recourse

### 4.1 Status

The Certificates represent an undivided ownership interest in the Trust Assets and are limited recourse obligations of the Trustee. Each Certificate will constitute unsecured obligations of the Trustee and shall at all times rank *pari passu* without any preference or priority, with all other Certificates. The rights and claims of the Trustee and the Certificateholders against the Bank in respect of the Relevant Obligations are subordinated as described in Condition 4.2 (*Subordination*).

### 4.2 Subordination

4.2.1 The payment obligations of the Bank under the Mudaraba Agreement (including all payments which are the equivalent of principal and profit) (the "**Relevant Obligations**") will (a) constitute Tier 1 Capital of the Bank, (b) constitute direct, unsecured, conditional and subordinated obligations of the Bank, (c) rank subordinate to all Senior Obligations, (d) rank *pari passu* with all other Pari Passu Obligations and (e) rank in priority to all Junior Obligations.

4.2.2 The Trustee or the Delegate may only exercise its enforcement rights in relation to any Relevant Obligation or in relation to any of its other rights under the Mudaraba Agreement or any other Transaction Document in the manner provided in Condition 12.3 (*Winding-up, dissolution or liquidation*).

4.2.3 The Trustee will, in each relevant Transaction Document, unconditionally and irrevocably waive any right of set-off, counterclaim, abatement or other similar remedy which it might otherwise have, under the laws of any jurisdiction, in respect of the Relevant Obligations. No collateral is or will be given by the Bank for the Relevant Obligations and any collateral that may have been or may in the future be given in connection with other obligations of the Bank shall not secure the Relevant Obligations.

4.2.4 Nothing in these Conditions shall affect or prejudice the payment of the costs, charges, expenses, liabilities or remuneration of the Delegate or the rights and remedies of the Delegate in respect thereof, all of which shall accordingly remain unsubordinated.

### 4.3 Other Issues

So long as any of the Certificates remain outstanding, the Bank (in its capacity as Mudareb or otherwise) will not issue any securities (regardless of name or designation) or create any guarantee of, or provide any contractual support arrangement in respect of, the obligations of any other entity which in each case constitutes (whether on a solo, or a solo consolidated or on a consolidated basis) issued Tier 1 Capital of the Bank if claims in respect of such securities, guarantee or contractual support arrangement would rank (as regards distributions on a return of assets on a winding-up or in respect of distribution or payment of dividends and/or any other amounts thereunder) senior to the Relevant Obligations. This prohibition will not apply if at the same time or prior thereto: (a) these Conditions and (to the extent applicable) the Transaction Documents are amended to ensure that the Trustee (on behalf of the Certificateholders) obtains and/or (b) the Relevant Obligations have, in each case, the benefit of, such of those rights and entitlements as are contained in or attached to such securities or under such guarantee or contractual support arrangement as are required so as to ensure that claims in respect of the Relevant Obligations rank *pari passu* with, and contain substantially equivalent rights of priority as to distributions or payments on, such securities or under such guarantee or contractual support arrangement.

### 4.4 Limited Recourse and Agreement of Certificateholders

Save as provided in this Condition 4.4 (*Limited Recourse and Agreement of Certificateholders*), the Certificates do not represent an interest in any of the Trustee, the Delegate, the Bank, any of the Agents or any of their respective affiliates. Each Certificateholder, by subscribing for or acquiring the Certificates, acknowledges and agrees that notwithstanding anything to the contrary contained in these Conditions or any Transaction Document:

(a) no payment of any amount whatsoever shall be made by the Trustee or any of its directors, officers, employees or agents on its behalf except to the extent funds are available therefor from the Trust Assets;

(b) the Trustee may not deal with the Mudaraba Assets or realise or deal with its interest, rights, title, benefit and entitlements, present and future, in, to and under the Transaction Documents and the Trust Assets except in the manner expressly permitted by the Transaction Documents;

(c) the proceeds of the Trust Assets are the sole source of payments on the Certificates. Payment by the Trustee of any Periodic Distribution Amount or any amount required to redeem the Certificates is subject to receipt by the Trustee of the amounts expected to be received by it from the Mudareb in accordance with the provisions of the Mudaraba Agreement;

(d) if the net proceeds of the realisation of, or enforcement with respect to, the Trust Assets is not sufficient to make all payments due in respect of the Certificates, Certificateholders will have no recourse to any assets of the Trustee (other than the Trust Assets in the manner contemplated in the Transaction Documents) or of the Delegate or the Agents, or any of their respective affiliates in respect of any such shortfall, and no recourse shall be had, and no Certificateholder will have any claim, for the payment of any amount due and owing hereunder or under any Transaction Document, whether for the payment of any fee, indemnity or other amount hereunder or any other obligation or claim arising out of or based upon the Transaction Documents, against the Trustee to the extent the Trust Assets have been exhausted (following which all obligations of the Trustee shall be extinguished) or the Delegate or the Agents;

(e) it will not petition for, institute, or join with any other person in instituting proceedings for, the reorganisation, arrangement, liquidation, bankruptcy winding-up or receivership or other proceedings under any bankruptcy or similar law against the Trustee or any of its directors, officers, agents, shareholders or affiliates as a consequence of such shortfall or otherwise;

(f) no recourse (whether by institution or enforcement of any legal proceedings or assessment or otherwise) in respect of any breaches of any duty, obligation or undertaking of the Trustee arising under or in connection with these Conditions or the Transaction Documents by virtue of any customary law, statute or otherwise shall be had against any shareholder, officer, director or corporate services provider of the Trustee in their capacity as such. The obligations of the Trustee under these Conditions and the Transaction Documents are corporate or limited liability obligations of the Trustee and no personal liability shall attach to or be incurred by the shareholders, members, officers, agents, directors or corporate services provider of the Trustee (in each of their respective capacities as such), save in the case of their wilful default or actual fraud. References in these Conditions to wilful default or actual fraud mean a finding to such effect by a court of competent jurisdiction (in relation to the conduct of the relevant party);

(g) it shall not be entitled to claim or exercise any right of set-off, counterclaim, abatement or other similar remedy which it might otherwise have, under the laws of any jurisdiction, in respect of any sums due under such Certificate. No collateral is or will be given for the payment obligations under the Certificates; and

(h) the Trustee and the Mudareb have agreed in the Mudaraba Agreement that the Mudareb shall not be responsible for any losses to the Mudaraba Capital suffered by the Trustee unless such losses are caused by (i) the Mudareb’s breach of the Mudaraba Agreement or (ii) the Mudareb’s gross negligence, wilful misconduct or fraud.

The Bank is obliged to make certain payments under the Transaction Documents directly to or to the order of the Trustee. Such payment obligations form part of the Trust Assets and the Trustee and/or the Delegate will, subject to Condition 4.2 (*Subordination*) and Condition 12.3 (*Winding-up, dissolution or liquidation*), have direct recourse against the Bank to recover payments due to the Trustee from the Bank pursuant to such Transaction Documents notwithstanding any other provision of this Condition 4.4 (*Limited Recourse and Agreement of Certificateholders*). Such right of the Trustee and the Delegate shall constitute an unsecured claim against the Bank. None of the Certificateholders, the Trustee and the Delegate shall be entitled to claim any priority right in respect of any specific assets of the Bank in connection with the enforcement of any such claim.

## 5 The Trust

5.1 Boubyan Tier 1 Sukuk Limited (in its capacity as Trustee and as the “**Rab-al-Maal**”) will enter into a mudaraba agreement (the “**Mudaraba Agreement**”) to be dated the Issue Date with the Bank (in such capacity, the “**Mudareb**”). Pursuant to the Mudaraba Agreement, the Rab-al-Maal will contribute the proceeds of the issue of the Certificates to the Mudareb, which proceeds will form the initial capital of the Mudaraba (as defined below) and which may be subject to change after the Issue Date in accordance with Condition 10.2 (*Purchase*) (the "**Mudaraba Capital**"). The Mudareb will invest the Mudaraba Capital in its general business activities carried out through the General Mudaraba Pool and following investment of the Mudaraba Capital in the General Mudaraba Pool, the Mudaraba Capital shall constitute *pro rata* undivided assets in the General Mudaraba Pool (the "**Mudaraba Assets**") in accordance with the Mudaraba Agreement, which shall include an investment plan prepared by the Mudareb and shall constitute a mudaraba (the "**Mudaraba**").

The Trustee has opened a transaction account in London (the "**Transaction Account**") in its own name with the Principal Paying Agent (details of which are set out in the Declaration of Trust) into which the Mudareb will pay all amounts due to the Trustee under the Mudaraba Agreement. If the Trustee is substituted in accordance with Condition 12.2 (*Trustee Events*), the Substituted Trustee will be required to open a new transaction account in London in its name with the Principal Paying Agent into which the Mudareb will pay all amounts due to the Trustee under the Mudaraba Agreement from the date of substitution onwards, and references in these Conditions to the "Transaction Account" will be construed accordingly.

5.2 Pursuant to the Declaration of Trust, the Trustee holds:

(a) the cash proceeds of the issue of the Certificates, pending application thereof in accordance with the terms of the Transaction Documents;

(b) all of the Trustee's rights, title, interest and benefit, present and future, in, to and under the assets from time to time constituting the Mudaraba Assets;

(c) all of the Trustee's rights, title, interest and benefit, present and future, in, to and under the Transaction Documents (other than in relation to any representations given by the Bank (acting in any capacity) pursuant to any of the Transaction Documents and the covenant given to the Trustee pursuant to clauses 12.1 and 12.10 of the Declaration of Trust); and

(d) all amounts standing to the credit of the Transaction Account from time to time,

and all proceeds of the foregoing (together, the "**Trust Assets**") upon trust absolutely for and on behalf of the Certificateholders *pro rata* according to the face amount of Certificates held by each such Certificateholder in accordance with the Declaration of Trust and these Conditions.

5.3 On each Periodic Distribution Date and on any date fixed for payment of the Dissolution Distribution Amount, the Principal Paying Agent shall apply the monies standing to the credit of the Transaction Account in the following order of priority (in each case, only if and to the extent that payments of a higher priority have been made in full):

(a) first (to the extent not previously paid), to each of the Delegate, each Agent and/or any Appointee (as defined in the Declaration of Trust) in respect of all amounts owing to it under the Transaction Documents in its capacity as Delegate (in accordance with the Declaration of Trust), Agent (in accordance with the Agency Agreement) or Appointee, as applicable;

(b) second, in or towards reimbursement *pari passu* and rateably of any amounts paid by any Indemnifying Parties as contemplated by clause 11.8 of the Declaration of Trust together with any profit payable thereon;

(c) third, only if such payment is due on or before a Periodic Distribution Date (to the extent not previously paid) to pay, *pro rata* and *pari passu*, (i) the Trustee in respect of all amounts owing to it under the Transaction Documents in its capacity as trustee; and (ii) the Trustee

Administrator in respect of all amounts owing to it under the Transaction Documents and the Corporate Services Agreement in its capacity as trustee administrator and registered office provider;

(d) fourth, only if such payment is due on a Periodic Distribution Date, and subject to Condition 8 (*Periodic Distribution Restrictions*), in or towards payment *pari passu* and rateably of all Periodic Distribution Amounts (including Additional Amounts) due but unpaid;

(e) fifth, only if such payment is due on a date fixed for payment of the Dissolution Distribution Amount, in or towards payment *pari passu* and rateably of the Dissolution Distribution Amount; and

(f) sixth, only after all amounts required to be paid in respect of the Certificates have been discharged in full, in payment of any residual amount to the Bank, or prior to the Mudaraba End Date, the Mudaraba Reserve.

## 6 Covenants

The Trustee has covenanted in the Declaration of Trust that, *inter alia*, for so long as any Certificate is outstanding, it shall not (without the prior written consent of the Delegate (given in accordance with the Declaration of Trust and these Conditions)):

(a) incur any indebtedness in respect of financed, obtained or raised money whatsoever (whether structured (or intended to be structured) in accordance with the principles of *Shari'a* or otherwise), or give any guarantee or indemnity in respect of any obligation of any person or issue any shares (or rights, warrants or options in respect of shares or securities convertible into or exchangeable for shares) except, in all cases, as contemplated in the Transaction Documents;

(b) secure any of its present or future indebtedness or present or future obligations (whether structured in accordance with the principles of *Shari'a* or otherwise) by granting or permitting to be outstanding any lien, pledge, charge, mortgage or other security interest upon any of its present or future undertakings, assets, properties or revenues (other than those arising by operation of law (if any) or under or pursuant to any of the Transaction Documents);

(c) sell, transfer, assign, participate, exchange or pledge, mortgage, hypothecate or otherwise encumber (by security interest, lien (statutory or otherwise), preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever or otherwise, or permit such to occur or suffer such to exist) any part of its interest in any of the Trust Assets except pursuant to any of the Transaction Documents (other than those arising by operation of law);

(d) use the proceeds of the issue of the Certificates for any purpose other than as stated in the Transaction Documents;

(e) amend or agree to any amendment to any Certificate or Transaction Document (other than in accordance with the terms thereof) in each case in a manner which is materially prejudicial to the rights of Certificateholders, without the prior approval of the Certificateholders by way of Extraordinary Resolution, save that it shall be permitted to make such variations to the Transaction Documents and these Conditions as are required pursuant to Condition 10.1 (*Redemption and variation*);

(f) act as trustee in respect of any trust other than the Trust or in respect of any parties other than the Certificateholders;

(g) have any subsidiaries or employees;

(h) redeem or purchase any of its shares or pay any dividend or make any other distribution to its shareholders;

(i) prior to the date which is one year and one day after the date on which all amounts owing by the Trustee under the Transaction Documents have been paid in full, put to its directors or shareholders any resolution for, or appoint any liquidator for, its winding-up (except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation on terms approved by the Delegate or by an Extraordinary Resolution of the Certificateholders) or any resolution for the commencement of any other bankruptcy or insolvency proceedings with respect to it;

(j) consolidate or merge with any other person; or

(k) enter into any contract, transaction, amendment, obligation or liability other than the Transaction Documents or any permitted amendment or supplement thereto or as expressly permitted or required thereunder or engage in any business or activity other than:

    (i) as provided for or permitted in the Transaction Documents;

    (ii) the ownership, management and disposal of the Trust Assets as provided in the Transaction Documents; and

    (iii) such other matters which are incidental thereto.

## 7 Periodic Distributions

### 7.1 Distribution of Mudaraba Profit

The Trustee has agreed in the Mudaraba Agreement that the Bank shall be entitled (in its capacity as Mudareb or otherwise) to utilise the Mudaraba Assets (and the proceeds thereof) to make payments in respect of the claims of Senior Creditors or to cover losses of the Mudaraba and that such entitlement shall apply at any time before an order has been made, or an effective resolution has been passed, for the winding-up, dissolution or liquidation (or other analogous event) of the Bank (in its capacity as Mudareb or otherwise).

### 7.2 Periodic Distribution Amounts

Subject to Conditions 4.2 (*Subordination*), 4.4 (*Limited Recourse and Agreement of Certificateholders*), 7.3 (*Cessation of Accrual*), 8 (*Periodic Distribution Restrictions*), 9 (*Payments*) and 11 (*Write-down at the Point of Non-Viability*), the Trustee shall distribute to Certificateholders, *pro rata* to their respective holdings, out of amounts transferred into the Transaction Account, a distribution in relation to the Certificates on each Periodic Distribution Date equal to the Periodic Distribution Amount. The "**Periodic Distribution Amount**" payable on each Periodic Distribution Date (i) falling prior to and including the First Reset Date shall be U.S.$19.75 per U.S.$1,000 in face amount of the Certificates and (ii) falling after the First Reset Date shall be the relevant amount calculated pursuant to Condition 7.4 (*Periodic Distributions*).

### 7.3 Cessation of Accrual

Subject to Conditions 4.2 (*Subordination*), 8 (*Periodic Distribution Restrictions*) and 11 (*Write-down at the Point of Non-Viability*), each Certificate will cease to be eligible to earn Periodic Distribution Amounts from the due date for redemption, following liquidation of the Mudaraba in accordance with these Conditions and the Mudaraba Agreement.

### 7.4 Periodic Distributions

Subject to Condition 8 (*Periodic Distribution Restrictions*), the Certificates bear profit at the applicable Profit Rate from (and including) the Issue Date in accordance with the provisions of this Condition 7 (*Periodic Distributions*). Periodic Distribution Amounts will not be cumulative and any Periodic Distribution Amount which is not paid will not accumulate or compound and Certificateholders will have no right to receive such Periodic Distribution Amount at any time, even if Periodic Distribution Amounts are paid in the future.

Subject to Condition 8 (*Periodic Distribution Restrictions*), Periodic Distribution Amounts shall be payable on the Certificates semi-annually in arrear on each Periodic Distribution Date, in each case as provided in this Condition 7 (*Periodic Distributions*).

If a Periodic Distribution Amount is required to be calculated in respect of a period of less than a full Periodic Distribution Period (the "**Relevant Period**"), it shall be calculated as an amount equal to the product of: (a) the applicable Profit Rate; (b) the face amount of the relevant Certificates; and (c) the applicable Day-count Fraction for the Relevant Period, rounding the resultant figure to the nearest cent (half a cent being rounded upwards).

**(a) Periodic Distribution Rate**

For the Initial Period, the Certificates bear profit at the Profit Rate of 3.950 per cent. per annum (the "**Initial Periodic Distribution Rate**").

The Profit Rate will be reset on each Reset Date on the basis of the aggregate of the Margin and the Relevant Six Year Reset Rate on the relevant U.S. Securities Determination Date, as determined by the Calculation Agent.

The Calculation Agent will, as soon as practicable upon determination of the Profit Rate which shall apply to the Reset Period commencing on the relevant Reset Date, but in no event later than the second Business Day thereafter, cause the applicable Profit Rate and the corresponding Periodic Distribution Amount to be notified to each of the Paying Agents, Euronext Dublin or any other stock exchange on which the Certificates are for the time being listed (if then required by Euronext Dublin or such other stock exchange) and to be notified to Certificateholders in accordance with Condition 17 (*Notices*). To the extent that the Calculation Agent is unable to notify Euronext Dublin, or any other stock exchange on which the Certificates are for the time being listed (if then required by Euronext Dublin or such other stock exchange), the Calculation Agent shall promptly notify the Bank, which shall procure the performance of such obligation.

For the avoidance of doubt, the Calculation Agent shall not be responsible to the Trustee, the Bank, the Certificateholders or any third party as a result of the Calculation Agent having relied upon any quotation, ratio or other information provided to it by any person for the purposes of making any determination hereunder, which subsequently may be found to be incorrect or inaccurate in any way.

**(b) Calculation Agent**

With effect from the First Reset Date, and so long as any Certificates remain outstanding thereafter, the Trustee will maintain a Calculation Agent. The name of the initial Calculation Agent and its initial specified office is set out at the end of these Conditions.

The Trustee may, with the prior written approval of the Delegate (given in accordance with the Declaration of Trust and these Conditions), from time to time replace the Calculation Agent with another leading investment, merchant or commercial bank or financial institution in

London. If the Calculation Agent is unable or unwilling to continue to act as the Calculation Agent or (without prejudice to Condition 7.4(c) (*Determinations of Calculation Agent or Trustee Binding*)) fails duly to determine the Profit Rate in respect of any Reset Period as provided in Condition 7.4(a) (*Periodic Distribution Rate*), the Trustee shall forthwith appoint another leading investment, merchant or commercial bank or financial institution in London approved in writing by the Delegate (in accordance with the Declaration of Trust and these Conditions) to act as such in its place. The Calculation Agent may not resign its duties or be removed without a successor having been appointed as aforesaid.

**(c) Determinations of Calculation Agent or Trustee Binding**

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 7 (*Periodic Distributions*), whether by the Calculation Agent or the Trustee (or its agent), shall (in the absence of manifest error) be binding on the Trustee, the Bank, the Calculation Agent, the Paying Agents, the Delegate and all Certificateholders and (in the absence of wilful default or gross negligence) no liability to the Trustee, the Bank, any Agent, the Delegate and the Certificateholders shall attach to the Calculation Agent or the Trustee (or its agent) in connection with the exercise or non-exercise by them of any of their powers, duties and discretions.

## 8 Periodic Distribution Restrictions

### 8.1 Non-Payment Event

Notwithstanding Condition 7.4 (*Periodic Distributions*), if any of the following events occur (each, a "**Non-Payment Event**"), the Bank (as Mudareb) shall not pay Mudaraba Profit (and, as a result, Rab-al-Maal Mudaraba Profit) or Final Mudaraba Profit (and, as a result, Rab-al-Maal Final Mudaraba Profit) on any Mudaraba Profit Distribution Date or Mudaraba End Date (as the case may be), and as a result thereof the Trustee shall not pay Periodic Distribution Amounts on the corresponding Periodic Distribution Date:

(i) the amount equal to the then applicable Periodic Distribution Amount to be paid by the Bank out of the Rab-al-Maal Mudaraba Profit or Rab-al-Maal Final Mudaraba Profit, as applicable (the "**Relevant Rab-al-Maal Mudaraba Profit Amount**"), when aggregated with any distributions or amounts payable by the Bank (in its capacity as Mudareb or otherwise) on the same date (or otherwise due and payable on such date) on any other obligations in respect of Pari Passu Obligations, exceeds, on the relevant date for payment of the Relevant Rab-al-Maal Mudaraba Profit Amount, the Mudareb's Distributable Funds; or

(ii) the Bank (in its capacity as Mudareb or otherwise) is, on that Mudaraba Profit Distribution Date or Mudaraba End Date (as the case may be), in breach of (or such payment would cause a breach of) the Applicable Regulatory Capital Requirements (including any applicable capital buffers imposed on the Bank by the Financial Regulator); or

(iii) the Financial Regulator requires (a) the Bank not to pay the Relevant Rab-al-Maal Mudaraba Profit Amount to the Trustee (in its capacity as Rab-al-Maal) on that Mudaraba Profit Distribution Date or Mudaraba End Date (as the case may be) or (b) the Trustee (in its capacity as Rab-al-Maal) not to pay the relevant Periodic Distribution Amount on that Periodic Distribution Date.

**8.2 Non-Payment Election**

Notwithstanding Condition 7.4 (*Periodic Distributions*), the Bank may in its sole discretion elect that Rab-al-Maal Mudaraba Profit (in whole or in part) will not be paid to the Trustee (in its capacity as Rab-al-Maal) on any Mudaraba Profit Distribution Date, and the Bank shall, in each case, instruct the Trustee not to make payment of a Periodic Distribution Amount (in whole or in part) to Certificateholders on such Periodic Distribution Date, provided that the foregoing in this Condition 8.2 (*Non-Payment Election*) shall not apply in respect of Rab-al-Maal Final Mudaraba Profit payable on any Mudaraba End Date (any such election being a "**Non-Payment Election**"). The Bank may not, however, make a Non-Payment Election once the Trustee has given notice to Certificateholders that the Certificates will be redeemed in whole in accordance with Condition 10 (*Redemption and Variation*).

**8.3 Effect of Non-Payment Event or Non-Payment Election**

If the Bank makes a Non-Payment Election or a Non-Payment Event occurs, then the Bank shall (i) in the case of a Non-Payment Election, no later than 14 calendar days prior to such event, and (ii) in the case of a Non-Payment Event, as soon as practicable thereafter but in any case no later than five Business Days prior to the relevant Mudaraba Profit Distribution Date or Mudaraba End Date, as the case may be, give notice to the Trustee and the Principal Paying Agent in accordance with the Mudaraba Agreement, the Delegate in accordance with the Declaration of Trust and Certificateholders in accordance with Condition 17 (*Notices*) in each case providing details of the Non-Payment Election (including, if relevant, details of any partial payment to be made) or Non-Payment Event, as the case may be. In the absence of notice of such Non-Payment Election or Non-Payment Event, as the case may be, having been given in accordance with this Condition 8.3, the fact of non-payment of the Relevant Rab-al-Maal Mudaraba Profit Amount (or any part thereof) on the relevant Mudaraba Profit Distribution Date or Mudaraba End Date (as the case may be) shall be evidence of the occurrence of a Non-Payment Election or a Non-Payment Event, as the case may be. Certificateholders shall have no claim in respect of any Periodic Distribution Amount (or any part thereof, as applicable) not paid as a result of either a Non-Payment Election or a Non-Payment Event (in each case, irrespective of whether notice of such Non-Payment Election or Non-Payment Event has been given in accordance with this Condition 8.3) and any such non-payment in whole or in part, as applicable, of Rab-al-Maal Mudaraba Profit, Rab-al-Maal Final Mudaraba Profit (in the case of a Non-Payment Event only) or a Periodic Distribution Amount in such circumstance shall not constitute a Dissolution Event. The Bank shall not have any obligation to make any subsequent payment in respect of any such unpaid profit (or any part thereof, as applicable) (whether from its own cash resources, from the Mudaraba Reserve or otherwise) and the Trustee shall not have any obligation to make any subsequent payment in respect of any such Periodic Distribution Amounts (or any part thereof, as applicable).

**8.4 Dividend and Redemption Restrictions**

If any amount of Rab-al-Maal Mudaraba Profit, Rab-al-Maal Final Mudaraba Profit or Periodic Distribution Amount is not paid as a consequence of a Non-Payment Election or a Non-Payment Event pursuant to Condition 8.1 (*Non-Payment Event*) or 8.2 (*Non-Payment Election*) (as the case may be), then, from the date of such Non-Payment Election or Non-Payment Event (the "**Dividend Stopper Date**"), the Bank will not, so long as any of the Certificates are outstanding:

(i) declare or pay any distribution or dividend or make any other payment on, and will procure that no distribution or dividend or other payment is made on, Ordinary Shares issued by the Bank (other than to the extent that any such distribution, dividend or other payment is declared before such Dividend Stopper Date); or

(ii) declare or pay profit or any other distribution on any of its shares (other than Ordinary Shares) or securities ranking, as to the right of payment of dividend, distributions or similar payments, junior to or *pari passu* with the Relevant Obligations (excluding securities the terms of which do not at the relevant time enable the Bank to defer or otherwise not to make such payment), only to the extent such restriction on payment or distribution is permitted under the relevant regulatory criteria for Tier 1 Capital applicable from time to time; or

(iii) directly or indirectly redeem, purchase, cancel, reduce or otherwise acquire any Ordinary Shares issued by the Bank; or

(iv) directly or indirectly redeem, purchase, cancel, reduce or otherwise acquire any securities issued by the Bank ranking, as to the right of repayment of capital, junior to or *pari passu* with the Relevant Obligations (excluding securities the terms of which stipulate (i) any mandatory redemption in accordance with its terms or (ii) any conversion into, or exchange for, Ordinary Shares), only to the extent such restriction on redemption, purchase, cancellation, reduction or acquisition is permitted under the relevant regulatory criteria for Tier 1 Capital applicable from time to time,

in each case unless or until (a) two consecutive payments of Rab-al-Maal Mudaraba Profit or (b) (as the case may be) payment of the Rab-al-Maal Final Mudaraba Profit, in each case following the Dividend Stopper Date, have been made in full (or an amount equal to the same has been duly set aside or provided for in full for the benefit of the Trustee in accordance with the Mudaraba Agreement).

## 9 Payments

### 9.1 Payments in respect of the Certificates

Subject to Condition 9.2 (*Payments subject to Applicable Laws*), payment of the Dissolution Distribution Amount and any Periodic Distribution Amount will be made by or on behalf of the Trustee in U.S. dollars by wire transfer in same day funds to the Registered Account (as defined below) of the Certificateholder. Payments of the Dissolution Distribution Amount will only be made against presentation and surrender of the relevant Certificate at the specified office of any of the Paying Agents. The Dissolution Distribution Amount and each Periodic Distribution Amount will be paid to the Certificateholder shown on the Register at the close of business on the relevant Record Date.

For the purposes of this Condition 9 (*Payments*), a Certificateholder's "**Registered Account**" means the U.S. dollar account maintained by or on behalf of such Certificateholder with a bank that processes payments in U.S. dollars, details of which appear on the Register at the close of business on the relevant Record Date.

### 9.2 Payments subject to Applicable Laws

Payments in respect of the Certificates are subject in all cases to (a) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 13 (*Taxation*) and (b) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**"), or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 13 (*Taxation*)) any law implementing an intergovernmental approach thereto.

### 9.3 No Commissions

No commissions or expenses shall be charged to the Certificateholders in respect of any payments made in accordance with this Condition 9 (*Payments*).

### 9.4 Payment only on a Payment Business Day

Where payment is to be made by transfer to a Registered Account, payment instructions (for value the due date or, if that is not a Payment Business Day (as defined below), for value the first following day which is a Payment Business Day) will be initiated by the Principal Paying Agent on the due date for payment or, in the case of a payment of the Dissolution Distribution Amount, if later, on the Payment Business Day on which the relevant Certificate is surrendered at the specified office of a Paying Agent for value as soon as practicable thereafter.

Certificateholders will not be entitled to any additional payment for any delay after the due date in receiving the amount due if the due date is not a Payment Business Day or if the relevant Certificateholder is late in surrendering its Certificate (if required to do so).

If the amount of the Dissolution Distribution Amount or, subject to Conditions 8.1 (*Non-Payment Event*) and 8.2 (*Non-Payment Election*), any Periodic Distribution Amount is not paid in full when due, the Registrar will annotate the Register with a record of the amount in fact paid.

In these Conditions, "**Payment Business Day**" means a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets in New York City and London settle payments and are open for general business and, in the case of presentation of a Certificate, in the place in which the Certificate is presented.

### 9.5 Agents

The names of the initial Agents and their initial specified offices are set out at the end of these Conditions. The Trustee reserves the right at any time to vary or terminate the appointment of any Agent and to appoint additional or other Agents, provided that: (a) it will at all times maintain a Principal Paying Agent and a Registrar (which may be the same entity); and (b) so long as any Certificates are admitted to listing, trading and/or quotation on any listing authority, stock exchange and/or quotation system, it will at all times maintain a Paying Agent, a Registrar and a Transfer Agent having its specified office in such place (if any) as may be required by the rules of such listing authority, stock exchange and/or quotation system. Notice of any termination or appointment and of any changes in specified offices will be given to Certificateholders promptly by the Trustee in accordance with Condition 17 (*Notices*).

## 10 Redemption and Variation

### 10.1 Redemption and variation

#### (a) No Fixed Redemption Date and Conditions for Redemption and Variation

The Certificates are perpetual securities in respect of which there is no fixed redemption date and the Trustee shall (subject to the provisions of Condition 4.2 (*Subordination*), Condition 11 (*Write-down at the Point of Non-Viability*) and Condition 12.3 (*Winding-up, dissolution or liquidation*) and without prejudice to the provisions of Condition 14 (*Prescription*)) only have the right to redeem the Certificates or vary the terms thereof in accordance with the following provisions of this Condition 10 (*Redemption and Variation*).

The redemption of the Certificates or variation of these Conditions, in each case pursuant to this Condition 10 (*Redemption and Variation*), is subject to the following conditions (in addition to those set out elsewhere in this Condition 10.1 (*Redemption and variation*)):

(i) (except to the extent that the Financial Regulator no longer so requires) the Bank having obtained the prior approval of the Financial Regulator; and

(ii) (except to the extent that the Financial Regulator no longer so requires) the requirement that at the time when the relevant notice of redemption or variation is given and immediately following any redemption or variation (as applicable), the Bank is or will be (as the case may be) in compliance with the Applicable Regulatory Capital Requirements (including any applicable capital buffers imposed on the Bank by the Financial Regulator).

**(b) Trustee's Call Option**

Subject to Condition 10.1(a) (*No Fixed Redemption Date and Conditions for Redemption and Variation*) and Condition 10.1(f) (*No redemption following delivery of a Non-Viability Notice*), the Bank may (acting in its sole discretion) instruct the Trustee to, whereupon the Trustee shall, by giving not less than 15 nor more than 30 days' prior notice to the Certificateholders in accordance with Condition 17 (*Notices*) and to the Delegate in accordance with the Declaration of Trust, (which notice shall specify the date fixed for redemption and shall, subject to Condition 10.1(f), be irrevocable), redeem all, but not some only, of the Certificates at the Trustee Call Amount.

Redemption of the Certificates pursuant to this Condition 10.1(b) (*Trustee's Call Option*) may occur on the First Call Date and on any date thereafter up to and including the First Reset Date, or any Periodic Distribution Date thereafter.

Prior to the publication of any notice of redemption pursuant to this Condition 10.1(b) (*Trustee's Call Option*), the Bank shall give to the Trustee and the Delegate a certificate signed by two Authorised Signatories stating that all conditions precedent to the redemption of the Certificates pursuant to this Condition 10.1(b) (*Trustee's Call Option*) (other than the notice to Certificateholders described in this Condition 10.1(b) (*Trustee's Call Option*)) have been satisfied (upon which the Delegate may rely without further enquiry and without liability to any person), and the Delegate shall accept the certificate without any further enquiry as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Certificateholders.

**(c) Redemption or Variation due to Taxation**

(i) Subject to Condition 10.1(a) (*No Fixed Redemption Date and Conditions for Redemption and Variation*), this Condition 10.1(c) (*Redemption or Variation due to Taxation*) and Condition 10.1(f) (*No redemption following delivery of a Non-Viability Notice*), if a Tax Event occurs, the Bank may (acting in its sole discretion) instruct the Trustee to, whereupon the Trustee shall, by giving not less than 15 nor more than 30 days' prior notice to the Certificateholders in accordance with Condition 17 (*Notices*) and to the Delegate in accordance with the Declaration of Trust, (which notice shall specify the date fixed for redemption or variation (as applicable) and applicable Record Date, and shall, subject to Condition 10.1(f), be irrevocable), (a) redeem all, but not some only, of the Certificates at the Tax Event Redemption Amount; or (b) vary the terms of the Mudaraba Agreement, subject to the approval of the Mudareb's *Shari'a* board, and the Certificates such that the Certificates remain or become, as the case may be, Qualifying Tier 1 Instruments, in each case without any requirement for consent or approval of the Certificateholders, and in the case of (b) only provided that such modifications or any document giving effect to such modifications do not impose, in the Delegate's sole opinion, more onerous obligations or duties upon it or expose it to liabilities or reduce its protections, and that such modifications or any document giving effect to such modifications are approved by the Trustee and the Delegate (who shall be obliged to approve the same if the requirements of Clause 10.1(c)(iii) are satisfied). No such notice shall be given earlier than 90 days prior to the earliest date on which the Trustee or the Bank would be obliged to pay Additional Amounts or additional amounts under clause 5.11 of the Mudaraba Agreement. If the Bank does not instruct the Trustee to so redeem or vary in accordance with this Condition 10.1(c)(i) (*Redemption or Variation due to Taxation*) in respect of such Tax Event then the Certificates shall continue to be perpetual securities in respect of which there is no fixed redemption date unless the Trustee shall otherwise (subject to the provisions of Condition 4.2 (*Subordination*), Condition 11 (Write-down at the Point of Non-Viability) and Condition 12.3 (*Winding-up, dissolution or liquidation*) and without prejudice to the provisions of Condition 14 (*Prescription*)) redeem the Certificates or vary the terms thereof in accordance with the provisions of this Condition 10 (*Redemption and Variation*).

(ii) Redemption of the Certificates, or variation of these Conditions, pursuant to this Condition 10.1(c) (*Redemption or Variation due to Taxation*) may occur on any date on or after the Issue Date (whether or not a Periodic Distribution Date).

(iii) Prior to the delivery of any notice of redemption or variation, as the case may be, pursuant to this Condition 10.1(c) (*Redemption or Variation due to Taxation*), the Bank shall give to the Trustee and the Delegate (i) a copy of the opinion of an independent tax or legal adviser of recognised standing to the effect that a Tax Event has occurred (upon which the Delegate may rely without liability to any person) and (ii) a certificate signed by two Authorised Signatories (upon which the Delegate may rely without liability to any person) stating that (A) the conditions set out in Condition 10.1(a) (*No Fixed Redemption Date and Conditions for Redemption and Variation*) have been satisfied; (B) a Tax Event has occurred; and (C) in the case of a variation only, the Certificates, as so varied, are Qualifying Tier 1 Instruments and that the Financial Regulator has confirmed that they satisfy limb (i) of the definition of "Qualifying Tier 1 Instruments". Such certificate and opinion shall be conclusive and binding evidence of the satisfaction of the conditions precedent set out above in this Condition 10.1(c)(iii) (*Redemption or Variation due to Taxation*) and the Delegate shall be entitled to accept and rely on such certificate and opinion without any further inquiry as sufficient evidence of the satisfaction of such conditions precedent without liability to any person. Upon expiry of such notice, the Trustee shall redeem or vary the terms of the Certificates, as the case may be.

*The Capital Regulations, as in force from time to time, may oblige the Bank to demonstrate to the satisfaction of the Financial Regulator that (among other things) the Tax Law Change was not reasonably foreseeable as at the Issue Date.*

**(d) Redemption or Variation for Capital Event**

(i) Subject to Condition 10.1(a) (*No Fixed Redemption Date and Conditions for Redemption and Variation*), this Condition 10.1(d) (*Redemption or Variation for Capital Event*) and Condition 10.1(f) (*No redemption following delivery of a Non-Viability Notice*), if a Capital Event occurs and is continuing, the Bank may (acting in its sole discretion) instruct the Trustee to, whereupon the Trustee shall, by giving not less than 15 nor more than 30 days' prior notice to the Certificateholders in accordance with Condition 17 (*Notices*) and to the Delegate in accordance with the Declaration of Trust, (which notice shall specify the date fixed for redemption or variation (as applicable) and the applicable Record Date and shall, subject to Condition 10.1(f), be irrevocable), (a) redeem all, but not some only, of the Certificates at the Capital Event Redemption Amount; or (b) solely for the purpose of ensuring compliance with the Applicable Regulatory Capital Requirements, vary the terms of the Mudaraba Agreement, subject to the approval of the Mudareb's *Shari'a* board, and the Certificates such that the Certificates remain or become, as the case may be, Qualifying Tier 1 Instruments without any requirement for consent or approval of the Certificateholders, and, in the case of (b) only, provided that such modifications or any document giving effect to such modifications do not impose, in the Delegate's sole opinion, more onerous obligations or duties upon it or expose it to liabilities or reduce its protections, and that such modifications or any document giving effect to such modifications are approved by the Trustee and the Delegate (who shall be obliged to approve the same if the requirements of Clause 10.1(d)(iii) are satisfied). If the Bank does not instruct the Trustee to so redeem or vary in accordance with this Condition 10.1(d)(i) (*Redemption or Variation for Capital Event*) in respect of such Capital Event then the Certificates shall continue to be perpetual securities in respect of which there is no fixed redemption date unless the Trustee shall otherwise (subject to the provisions of Condition 4.2 (*Subordination*), Condition 11 (*Write-down at the Point of Non-Viability*) and Condition 12.3 (*Winding-up, dissolution or liquidation*) and without prejudice to the provisions of Condition 14 (*Prescription*)) redeem the Certificates or vary the terms thereof in accordance with the provisions of this Condition 10 (*Redemption and Variation*).

(ii) Redemption of the Certificates, or variation of these Conditions, pursuant to this Condition 10.1(d) (*Redemption or Variation for Capital Event*) may occur on any date on or after the Issue Date (whether or not a Periodic Distribution Date).

(iii) Prior to the delivery of any notice of redemption or variation, as the case may be, pursuant to this Condition 10.1(d) (*Redemption or Variation for Capital Event*), the Bank shall give to the Trustee and the Delegate a certificate signed by two Authorised Signatories (upon which the Delegate shall rely without liability to any person) stating that (A) the conditions set out in Condition 10.1(a) (*No Fixed Redemption Date and Conditions for Redemption and Variation*) and Condition 10.1(d)(iv) (*Redemption or Variation for Capital Event*) have been satisfied; (B) a Capital Event has occurred and is continuing as at the date of the certificate; and (C), in the case of a variation only, the Certificates, as so varied, are Qualifying Tier 1 Instruments and the Financial Regulator has confirmed that they satisfy limb (i) of the definition of Qualifying Tier 1 Instruments and such certificate shall be conclusive and binding evidence of the satisfaction of the conditions precedent set out above in this Condition 10.1(d)(iii) (*Redemption or Variation for Capital Event*) and the Delegate shall be entitled to accept and rely on such certificate without any further enquiry as sufficient evidence of the satisfaction of such conditions precedent without liability to any person. Upon expiry of such notice the Trustee shall redeem or vary the terms of the Certificates, as the case may be.

(iv) The redemption of the Certificates or variation of these Conditions, in each case pursuant to this Condition 10.1(d) (*Redemption or Variation for Capital Event*) is subject to the requirement that the circumstance that entitles the Bank to instruct the Trustee to exercise its right of redemption or variation is a change of law, published practice or regulation (including Applicable Regulatory Capital Requirements) in the State of Kuwait or a change in the interpretation or application of such law, published practice or regulation by any court or authority entitled to do so which change becomes, or would become, effective on or after 29 March 2021.

*The Capital Regulations, as in force from time to time, may oblige the Bank to demonstrate to the satisfaction of the Financial Regulator that (among other things) the Capital Event was not reasonably foreseeable as at the Issue Date.*

**(e) Taxes upon Variation**

In the event of a variation in accordance with Condition 10.1(c) (*Redemption or Variation due to Taxation*) or 10.1(d) (Redemption or Variation for Capital Event), none of the Trustee, the Delegate and the Bank will be obliged to pay and will not pay any liability of any Certificateholder to corporation tax, corporate income tax or tax on profits or gains or any similar tax arising in respect of the variation of the terms of the Certificates, provided that (in the case of a Tax Event) or so that (in the case of a Capital Event) the Certificates remain or become, as the case may be, Qualifying Tier 1 Instruments, and further will not be liable for any stamp duty or similar other taxes arising on any subsequent transfer, disposal or deemed disposal of the Qualifying Tier 1 Instruments by such Certificateholder.

**(f) No redemption following delivery of a Non-Viability Notice**

If the Bank has instructed the Trustee to redeem the Certificates and prior to the redemption of the Certificates a Non-Viability Event occurs, the relevant redemption notice shall be automatically rescinded and shall be of no force and effect and the Trustee shall (upon receiving written notice of the Non-Viability Event) give notice thereof to the Certificateholders (in accordance with Condition 17 (*Notices*)), the Delegate, the Principal Paying Agent and the Registrar as soon as practicable. Further, no notice of redemption shall be given in the period following the giving of a Non-Viability Notice and prior to the relevant Non-Viability Event Write-down Date.

## 10.2 Purchase

Subject to the Bank (A) obtaining the prior approval of the Financial Regulator (except to the extent that the Financial Regulator no longer so requires), and (B) being in compliance with the Applicable Regulatory Capital Requirements, the Bank or any of its Subsidiaries, may, in those circumstances permitted by the Applicable Regulatory Capital Requirements, purchase the Certificates in any manner and at any price. Upon any such purchase, the Bank shall deliver such Certificates to any Paying Agent for cancellation, and upon such cancellation, the Mudaraba Capital shall be reduced by the face amount of the Certificates so cancelled.

### 10.3 Cancellation

All Certificates that are redeemed, and all Certificates that are purchased pursuant to Condition 10.2 (*Purchase*) and which the Bank delivers for cancellation in accordance with Condition 10.2 (*Purchase*), will be cancelled as soon as possible and accordingly may not be held, reissued or resold.

## 11 Write-down at the Point of Non-Viability

### 11.1 Non-Viability Event

If a Non-Viability Event occurs, a Write-down (in whole or in part, as applicable) will take place in accordance with Condition 11.2 (*Non-Viability Notice*).

Any such Write-down shall not constitute a Dissolution Event. Certificateholders acknowledge that there shall be no recourse to the Financial Regulator in respect of any determination made by it with respect to the occurrence of a Non-Viability Event.

*It is the Mudareb's current intention to procure that a Write-down will take place: (1) after the Ordinary Shares in the Mudareb absorb losses (if and to the extent such loss absorption is permitted at the relevant time under all relevant rules and regulations applicable to the Mudareb at such time) and the Financial Regulator has not notified the Mudareb in writing that the relevant Non-Viability Event has been cured as a result of such loss absorption; and (2) simultaneously and pro rata with the write-down of any of the Mudareb's other obligations in respect of Tier 1 Capital and any other trust certificates and other instruments related to the Mudareb's other obligations constituting Tier 1 Capital; and (3) prior to the write-down or write-off of any of the Mudareb's obligations in respect of Tier 2 Capital and any other trust certificates and other instruments related to the Mudareb's other obligations constituting Tier 2 Capital. However, the Mudareb may at any time depart from this policy at its sole discretion or if so required by the Applicable Regulatory Capital Requirements or the Financial Regulator.*

### 11.2 Non-Viability Notice

On the third Business Day following the date on which such Non-Viability Event occurs, (a) the Mudareb will notify the Trustee thereof in accordance with the Mudaraba Agreement and (b) the Trustee will then notify the Delegate and the Certificateholders thereof and the Principal Paying Agent in accordance with Condition 17 (*Notices*) (a "**Non-Viability Notice**"). A Write-down will occur on the Non-Viability Event Write-down Date and, with effect from such date, (i) in the case of a Write-down in whole only, the Mudaraba Agreement will be automatically terminated; and (ii) in the case of a Write-down in part only, the Mudaraba Capital shall be reduced in proportion to the face amount of the Certificates that are to be written-down and Periodic Distribution Amounts shall only be in respect of the face amount of the Certificates that have not been written-down. In the case of (i) above, the Trustee shall not be entitled to any claim for any amounts in connection with the Mudaraba Assets. In the case of (ii) above, the Trustee shall not be entitled to any claim for any amounts in connection with the Mudaraba Assets that relate to the proportion of the Mudaraba Capital that has been reduced.

### 11.3 Liability of Delegate and Agents

Neither the Delegate nor the Agents shall have any responsibility for, or liability or obligation in respect of, any loss, claim or demand incurred as a result of or in connection with a Non-Viability Event (or its disapplication, if applicable) or any consequent Write-down and/or cancellation of any Certificates or termination of the Mudaraba Agreement or any claims in respect thereof, and the Delegate and the Agents shall not be responsible for any calculation, determination or the verification of any calculation or determination in connection with the foregoing.

## 12 Dissolution Events and Winding-up

*The Declaration of Trust contains provisions entitling the Delegate to claim from the Trustee and the Bank, inter alia, the fees, expenses and liabilities incurred by it in carrying out its duties under the Declaration of Trust. The restrictions on commencing proceedings described below will not apply to any such claim.*

### 12.1 Bank Events

If a Bank Event occurs, the Delegate (provided it shall have been given notice in writing thereof by the Trustee or the Bank or otherwise upon the Delegate's Agency & Trust function having actual knowledge of the Bank Event, and subject to it being indemnified and/or prefunded to its satisfaction) shall promptly give notice of the occurrence of such Bank Event to the Certificateholders in accordance with Condition 17 (*Notices*) with a request to such Certificateholders to indicate to the Trustee and the Delegate in writing if they wish the Certificates to be redeemed in whole and the Trust to be dissolved (a "**Dissolution Request**"). The Delegate may and, if so requested in writing by the Certificateholders of at least one-fifth of the then aggregate face amount of the Certificates outstanding or if so directed by an Extraordinary Resolution of Certificateholders, shall (but in each case subject to Condition 12.3(e)(i) (*Realisation of Trust Assets*)), give notice (a "**Dissolution Notice**") to the Trustee that the Certificates are immediately due and payable at the aggregate face amount of the outstanding Certificates together with any Outstanding Payments, whereupon the aggregate face amount of the outstanding Certificates together with any Outstanding Payments shall become immediately due and payable without presentation, demand, protest or other notice of any kind. A Dissolution Notice may be given whether or not a Dissolution Request has been given to Certificateholders.

### 12.2 Trustee Events

(i) The Bank has undertaken in the Declaration of Trust that, as soon as practicable following the occurrence of a Trustee Event, it will procure, subject to such amendment of the Declaration of Trust and such other conditions as the Delegate may require and subject to the consent of the Financial Regulator, the substitution of any newly formed special purpose company in form substantially the same as that of the Trustee, in place of the Trustee (the "**Substituted Trustee**"), or of any previous substituted company, as trustee and issuer under the Declaration of Trust and the Certificates provided that:

(A) a deed is executed or undertaking given by the Substituted Trustee to the Delegate, in form and manner satisfactory to the Delegate (acting in accordance with the Declaration of Trust and these Conditions), agreeing to be bound by the Declaration of Trust, the Certificates and the Transaction Documents (with consequential amendments as the Delegate may deem appropriate) as if the Substituted Trustee had been named in the Declaration of Trust, the Certificates and the other Transaction Documents as trustee and issuer in place of the Trustee;

(B) if the Substituted Trustee is subject generally to the taxing jurisdiction of a territory or any political sub-division or authority of or in that territory with power to tax (the "**Substituted Territory**") other than the territory of the taxing jurisdiction to which (or to any such authority of or in which) the Trustee is subject generally (the "**Trustee's Territory**"), the Substituted Trustee shall give to the Delegate an undertaking satisfactory to the Delegate in terms corresponding to Condition 13 (*Taxation*) with the substitution for or the addition to the references in that Condition to the Trustee's Territory of references to the Substituted Territory whereupon the Declaration of Trust and the Certificates shall be read accordingly (and the Bank shall also be required to give to the Delegate an undertaking satisfactory to the Delegate in terms corresponding to the last paragraph of Condition 13 (*Taxation*), extending its obligations thereunder to the Substituted Territory);

(C) two directors of the Substituted Trustee certify that it will be solvent immediately after such substitution (the Delegate need not have regard to the Substituted Trustee's financial condition, profits or prospects or compare them with those of the Trustee);

(D) the Trustee, the Substituted Trustee and the Bank comply with such other requirements as the Delegate may direct in the interests of the Certificateholders; and

(E) such substitution would not, in the sole opinion of the Delegate, be materially prejudicial to the interests of the Certificateholders.

(ii) Subject to this Condition 12.2 (*Trustee Events*), the Delegate may agree to the substitution of the Substituted Trustee without obtaining the consent or approval of the Certificateholders (it being acknowledged that each Certificateholder has by virtue of the last paragraph of the preamble to these Conditions authorised each Substituted Trustee to act as Rab-al-Maal pursuant to the Mudaraba Agreement on its behalf).

(iii) If the Bank fails to comply with the foregoing provisions of this Condition 12.2 (*Trustee Events*) within 60 days of the occurrence of the relevant Trustee Event, Conditions 12.1 (*Bank Events*) and 12.3 (*Winding-up, dissolution or liquidation*) shall apply to the relevant Trustee Event as if it was a Bank Event.

**12.3 Winding-up, dissolution or liquidation**

**(a) Proceedings for Winding-up**

If a Bank Event occurs and a Dissolution Notice is delivered pursuant to Condition 12.1 (*Bank Events*), the Mudaraba will be liquidated in accordance with the provisions of the Mudaraba Agreement, and either the Trustee or the Delegate may at its discretion, and the Delegate shall, in each case subject to Condition 12.3(e)(i) (*Realisation of Trust Assets*), if it shall have been so requested by an Extraordinary Resolution of the Certificateholders or so requested in writing by the Certificateholders holding at least one-fifth of the then aggregate face amount of the Certificates outstanding (i) institute any steps, actions or proceedings for the winding-up of the Bank and/or (ii) prove in the winding-up of the Bank and/or (iii) institute any steps, actions or proceedings for the bankruptcy of the Bank and/or (iv) claim in the liquidation of the Bank and/or (v) take such other steps, actions or proceedings which, under the laws of the State of Kuwait, have an analogous effect to the actions referred to in (i) to (iv) above, in each case, for (subject as set out below) all amounts of Mudaraba Capital, Rab-al-Maal Mudaraba Profit, Rab-al-Maal Final Mudaraba Profit and/or other amounts due to the Trustee on termination of the Mudaraba Agreement in accordance with its terms and the terms of the other Transaction Documents, provided, however, that the Trustee or the Delegate may only take any such steps, actions or proceedings as described in this Condition 12.3(a) (*Proceedings for Winding-up*), but may take no further or other steps, actions or proceedings to enforce, prove or claim for any payment and provided further that neither the Trustee nor the Delegate may take any steps, actions or proceedings against the Bank with respect to any sum that the Bank has paid into the Transaction Account in accordance with the Transaction Documents in circumstances where the Trustee has failed to pay that amount to Certificateholders in accordance with these Conditions. No payment in respect of the Transaction Documents may be made by the Bank as a result of any steps, actions or proceedings taken pursuant to Condition 12.1 (*Bank Events*), nor will the Trustee or the Delegate accept the same, otherwise than during or after a winding-up (or analogous event) of the Bank, unless the Bank has given prior written notice (with a copy to the Trustee and the Delegate) to, and received no objection from, the Financial Regulator (which the Bank shall confirm in writing to the Trustee and the Delegate).

**(b) Enforcement**

Without prejudice to Condition 12.1 (*Bank Events*) and the remaining provisions of this Condition 12.3 *(Winding-up, dissolution or liquidation*), the Trustee (or the Delegate) may at its discretion and the Delegate shall, in each case subject to Condition 12.3(e)(i) (*Realisation of Trust Assets*), if it shall have been so requested by an Extraordinary Resolution of the Certificateholders or so requested in writing by the Certificateholders holding at least one-fifth of the then aggregate face amount of the Certificates outstanding and without further notice institute such steps, actions or proceedings against the Bank or against the Trustee, as it may think fit to enforce any term or condition binding on the Bank or the Trustee (as the case may be) under the Certificates and the Transaction Documents (other than any payment obligation of the Bank under or arising from the Transaction Documents, including, without limitation, payment of any principal or premium or satisfaction of any payments in respect of the Transaction Documents, including any damages awarded for breach of any obligations), including, without limitation, any failure by the Bank to procure the substitution of the Trustee in the circumstances described in Condition 12.2 (*Trustee Events*). However, in no event shall the Bank, by virtue of the institution of any such steps, actions or proceedings, be obliged to pay any sum or sums, in cash or otherwise, sooner than the same would otherwise have been payable by it in accordance with the Transaction Documents. Nothing in this Condition 12.3 (*Winding-up, dissolution or liquidation*) shall, however, prevent the Trustee (or the Delegate) from taking such steps, actions or proceedings as described in Condition 12.3(a) (*Proceedings for Winding-up*) in respect of any payment obligations of the Bank arising from the Mudaraba Agreement or any other Transaction Document (including any damages awarded for breach of any obligations).

**(c) Non-Viability**

All claims by the Delegate and/or the Certificateholders against the Trustee under the Certificates and all claims by the Trustee (or the Delegate) against the Bank under the Transaction Documents (including, without limitation, any claim in relation to any unsatisfied payment obligation of the Trustee and/or the Bank under the Certificates or the Transaction Documents, as the case may be) shall be subject to, and shall be superseded by the provisions of Condition 11 (*Write-down at the Point of Non-Viability*), irrespective of whether the relevant Non-Viability Event occurs prior to or after the event which is the subject matter of the claim provided that nothing in these Conditions shall affect or prejudice the payment of the costs, charges, expenses, liabilities or remuneration of the Delegate or the rights and remedies of the Delegate in respect thereof, all of which shall accordingly remain unsubordinated.

**(d) Extent of Certificateholder remedy**

No remedy against the Bank, other than as referred to in this Condition 12 (*Dissolution Events and Winding-up*), shall be available to the Delegate, the Trustee or the Certificateholders, whether for the recovery of amounts owing in respect of the Transaction Documents or in respect of any breach by the Bank of any of its other obligations under or in respect of the Transaction Documents.

**(e) Realisation of Trust Assets**

(i) Neither the Trustee nor the Delegate shall be bound to take any steps, actions or proceedings to enforce or to realise the Trust Assets or any of the actions, steps or proceedings referred to in these Conditions in respect of the Bank or, in the case of the Delegate only, the Trustee to enforce the terms of the Certificates or the Transaction Documents or give a Dissolution Notice (including, without limitation, pursuant to this Condition 12 (*Dissolution Events and Winding-up*)), unless (1) it shall have been so requested by an Extraordinary Resolution of the Certificateholders or in writing by Certificateholders holding at least one-fifth of the then aggregate face amount of the Certificates outstanding and (2) it shall have been indemnified and/or secured and/or pre-funded to its satisfaction.

(ii) No Certificateholder shall be entitled to proceed directly against the Trustee or the Bank or to take the actions, steps or proceedings referred to in Conditions 12.3(a) (*Proceedings for Winding-up*) and 12.3(b) (*Enforcement*) above, unless (i) the Trustee or the Delegate, having become bound so to proceed, fails to do so within a reasonable period and such failure is continuing and (ii) the relevant Certificateholder (or such Certificateholder together with the other Certificateholders who propose to proceed directly against any of the Trustee or the Bank, as the case may be) holds at least one-fifth of the then outstanding aggregate face amount of the Certificates, in which case the Certificateholders shall have only such rights against the Bank as those which the Trustee or the Delegate is entitled to exercise as set out in Condition 12.1 (*Bank Events*) and this Condition 12.3 (*Winding-up, dissolution or liquidation*).

(iii) Under no circumstances shall the Delegate or any Certificateholder have any right to cause the sale or other disposition of any of the Trust Assets (other than as expressly contemplated in the Transaction Documents) and the sole right of the Delegate and the Certificateholders against the Trustee and the Bank shall be to enforce their respective obligations under the Certificates and the Transaction Documents.

(iv) The foregoing paragraphs in this Condition 12.3(e) (*Realisation of Trust Assets*) are subject to this paragraph. After enforcing or realising the Trust Assets and distributing the net proceeds thereof in accordance with the Declaration of Trust, the obligations of the Trustee in respect of the Certificates shall be satisfied and no Certificateholder may take any further steps against the Trustee (or any steps against the Delegate) to recover any further sums in respect of the Certificates and the right to receive any such sums remaining unpaid shall be extinguished. In particular, no Certificateholder shall be entitled in respect thereof to petition or to take any other steps for the winding-up of the Trustee.

## 13 Taxation

All payments in respect of the Certificates by or on behalf of the Trustee shall be made free and clear of and without withholding or deduction for, or on account of, any present or future taxes, levies, imposts, duties, fees, assessments or other charges of whatever nature, imposed, levied, collected, withheld or assessed by or on behalf of any Relevant Jurisdiction ("**Taxes**"), unless the withholding or deduction of the Taxes is required by law. In such event, the Trustee will pay additional amounts ("**Additional Amounts**") so that the full amount which otherwise would have been due and payable under the Certificates in the absence of any such deduction or withholding is received by the parties entitled thereto, except that no such Additional Amount shall be payable in relation to any payment in respect of any Certificate:

(a) the holder of which is liable for such Taxes in respect of such Certificate by reason of having some connection with a Relevant Jurisdiction other than the mere holding of such Certificate; or

(b) presented for payment (where presentation is required) more than 30 days after the Relevant Date except to the extent that a holder would have been entitled to additional amounts on presenting the same for payment on such thirtieth day assuming that day to have been a Payment Business Day.

In these Conditions, references to the Dissolution Distribution Amount or any Periodic Distribution Amounts (and related expressions including, without limitation, the "**face amount**" of the Certificates and "**Outstanding Payments**") shall be deemed to include any Additional Amounts payable under this Condition 13 or any undertaking given in addition to or in substitution for it under the Declaration of Trust.

Notwithstanding any other provision in these Conditions, the Trustee and the Paying Agents shall be permitted to withhold or deduct any amounts imposed pursuant to an agreement described in Section 1471(b) of the Code or otherwise imposed pursuant to Sections 1471 through 1474 of the Code (or any regulations thereunder or official interpretations thereof), or an intergovernmental agreement between the United States and another jurisdiction facilitating the implementation thereof, implementing legislation adopted by another jurisdiction in connection with these provisions, or any agreement with the U.S. Internal Revenue Service (or any fiscal or regulatory legislation, rules or practices implementing such an intergovernmental agreement) (any such withholding or deduction, a "**FATCA withholding**"). None of the Trustee, the Delegate or any Agent will have any obligation to pay Additional Amounts or otherwise indemnify a Certificateholder for any FATCA withholding deducted or withheld by the Trustee, a Paying Agent or any other party as a result of any person not being entitled to receive payments free of FATCA withholding.

Neither the Delegate nor any Agent shall be responsible for paying any tax, duty, charges, withholding or other payment referred to in this Condition 13 or for determining whether such amounts are payable or the amount thereof, and none of them shall be responsible or liable for any failure by the Trustee, the Bank, any Certificateholder or any third party to pay such tax, duty, charges, withholding or other payment in any jurisdiction or to provide any notice or information to the Delegate or any Agent that would permit, enable or facilitate the payment of any principal, premium (if any), any additional amount or other amount under or in respect of the Certificates without deduction or withholding for or on account of any tax, duty, charge, withholding or other payment imposed by or in any jurisdiction.

The Mudaraba Agreement provides that payments made thereunder by the Bank (in its capacity as the Mudareb) to the Trustee shall be made free and clear of, and without withholding or deduction for, or on account of, any present or future Taxes, unless such withholding or deduction is required by law. In such event, and/or if Additional Amounts are payable by the Trustee in respect of the Certificates in accordance with this Condition 13, the Mudaraba Agreement provides for the payment by the Bank of such additional amounts by payment to the Transaction Account in U.S. dollars by wire transfer for same day value so that the net amounts received by the Certificateholders shall equal the respective amounts that would have been received in the absence of such withholding or deduction and in the absence of the withholding or deduction to which this Condition 13 applies.

## 14 Prescription

Subject to applicable law, the right to receive any amount in respect of the Certificates shall be prescribed and become void unless claimed within 10 years from the Relevant Date thereof.

## 15 Delegate

### 15.1 Delegation of Powers

The Trustee will in the Declaration of Trust irrevocably and unconditionally appoint the Delegate to be its attorney and in its name, on its behalf and as its act and deed, to execute, deliver and perfect all documents, and to exercise all of the present and future duties, powers (including the power to sub-delegate), trusts, rights, authorities (including, but not limited to, the authority to request directions from any Certificateholders and the power to make any determinations to be made under the Transaction Documents) and discretions vested in the Trustee by the Declaration of Trust, that the Delegate may consider to be necessary or desirable in order to, upon the occurrence of a Dissolution Event or Potential Dissolution Event, and subject to its being indemnified and/or secured and/or pre-funded to its satisfaction, (i) exercise all of the rights of the Trustee and have all the protections of the Trustee under the Mudaraba Agreement and any of the other Transaction Documents and (ii) make such distributions from the Trust Assets as the Trustee is bound to make in accordance with the Declaration of Trust (together the "**Delegation**" of the "**Relevant Powers**"), provided that: (i) no obligations, duties, liabilities or covenants of the Trustee pursuant to the Declaration of Trust or any other Transaction Document shall be imposed on the Delegate by virtue of the Delegation; (ii) in no circumstances will such Delegation of the Relevant Powers result in the Delegate holding on trust the Trust Assets; and (iii) such Delegation of the Relevant Powers shall not include any duty, power, trust, right, authority or discretion to dissolve the trusts constituted by the Declaration of Trust following the occurrence of a Dissolution Event or Potential Dissolution Event or to determine the remuneration of the Delegate. The Trustee shall ratify and confirm all things done and all documents executed by the Delegate in the exercise of all or any of the Relevant Powers.

In addition to the Delegation of the Relevant Powers under the Declaration of Trust, the Delegate also has certain powers which are vested solely in it from the date of the Declaration of Trust.

The appointment of a delegate by the Trustee is intended to be in the interests of the Certificateholders and does not affect the Trustee's continuing role and obligations as sole trustee.

### 15.2 Indemnification

The Declaration of Trust contains provisions for the indemnification of the Delegate in certain circumstances and for its relief from responsibility, including provisions relieving it from taking any action, step or proceeding unless indemnified and/or secured and/or pre-funded to its satisfaction. In particular, but without limitation, in connection with the exercise of any of its rights in respect of the Trust Assets or any other right it may have pursuant to the Declaration of Trust or the other Transaction Documents, the Delegate shall in no circumstances be bound to take any action, step or proceeding unless directed to do so in accordance with Condition 12 (*Dissolution Events and Winding-up*), and then only if it shall also have been indemnified and/or secured and/or pre-funded to its satisfaction. The Declaration of Trust provides that, when determining whether an indemnity or any security or pre-funding is satisfactory to it, the Delegate shall be entitled (i) to evaluate its risk in any given circumstance by considering the worst-case scenario and (ii) to require that any indemnity or security given to it by the Certificateholders or any of them be given on a joint and several basis and be supported by evidence satisfactory to it as to the financial standing and creditworthiness of each counterparty and/or as to the value of the security and an opinion as to the capacity, power and authority of each counterparty and/or the validity and effectiveness of the security.

### 15.3 No Liability

(a) The Delegate makes no representation and assumes no responsibility for the validity, sufficiency or enforceability of the obligations of the Bank or the Trustee under the Transaction

Documents and shall not under any circumstances have any liability or be obliged to account to the Certificateholders in respect of any payments which should have been paid by the Bank or the Trustee but are not so paid and shall not in any circumstances have any liability arising from the Trust Assets other than as expressly provided in these Conditions or in the Declaration of Trust.

(b) Each of the Trustee and the Delegate is exempted from: (i) any liability in respect of any loss or theft of the Trust Assets or any cash, unless such loss or theft arises as a result of fraud, wilful default or gross negligence by the Trustee or the Delegate, as the case may be; (ii) any obligation to monitor or insure the Trust Assets or any cash; and (iii) any claim arising from the fact that the Trust Assets or any cash are held by or on behalf of the Trustee or on deposit or in an account with any depositary or clearing system or are registered in the name of the Trustee or its nominee.

**15.4 Reliance on Opinions, Certificates, Reports and/or Information**

The Delegate may rely on any opinion, certificate, report or information of the auditors or insolvency officials (as applicable) of the Trustee or the Bank or any other expert or other person called for by or provided to the Delegate (whether or not addressed to the Delegate) in accordance with or for the purposes of the Declaration of Trust or the other Transaction Documents and such opinion, certificate, report or information may be relied upon by the Delegate (without liability to any person) as sufficient evidence of the facts stated therein notwithstanding that such opinion, certificate, report, information and/or any engagement letter or other document contains a monetary or other limit on the liability of the auditors or insolvency officials of the Trustee or the Bank or such other expert or other person in respect thereof and notwithstanding that the scope and/or basis of such opinion, certificate, report or information may be limited by an engagement or similar letter or by the terms of the opinion, certificate, report or information itself and the Delegate shall not be bound in any such case to call for further evidence or be responsible for any liability, delay or inconvenience that may be occasioned by its failure to do so.

**15.5 Proper performance of duties**

Nothing shall, in the case of the Trustee (having regard to the provisions of the Declaration of Trust conferring on it any trusts, powers, authorities or discretions) or in the case of the Delegate as donee and delegate (having regard to the powers, authorities and discretions conferred on it by the Declaration of Trust and to the Relevant Powers delegated to it), respectively exempt the Trustee or the Delegate from or indemnify either of them against any liability for gross negligence, wilful default or fraud of which either of them may be guilty in relation to their duties under the Declaration of Trust.

**15.6 Illegality**

The Delegate may refrain from taking any action in any jurisdiction if the taking of such action in that jurisdiction would, in its opinion based upon legal advice in the relevant jurisdiction, be contrary to any law of that jurisdiction. Furthermore, the Delegate may also refrain from taking such action if it would otherwise render it liable to any person in that jurisdiction or if, in its opinion based upon such legal advice, it would not have the power to do the relevant thing in that jurisdiction by virtue of any applicable law in that jurisdiction or if it is determined by any court or other competent authority in that jurisdiction that it does not have such power.

**15.7 Delegate not Precluded from Conducting Business with the Trustee and the Bank**

The Delegate is entitled, *inter alia*, (i) to enter into business transactions with the Trustee, the Bank and/or any entity related to the Trustee and/or the Bank and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Trustee and/or any entity related to the Trustee and/or the Bank, (ii) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Certificateholders, and (iii) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

### 15.8 Notice of Events

The Delegate shall not be responsible for monitoring or ascertaining whether or not a Non-Payment Event, Capital Event, Tax Event, Non-Viability Event, Dissolution Event or Potential Dissolution Event has occurred or exists or is continuing or will or may occur or exist and, unless and until the Delegate's Agency & Trust function shall have actual knowledge or the Delegate has received express written notice to the contrary, it will be entitled to assume that no such event or circumstance exists or has occurred or is continuing (without any liability to the Certificateholders or any other person for so doing).

## 16 Replacement of Certificates

If a definitive Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Registrar (and if the Certificates are then admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent or Transfer Agent in any particular place, the Paying Agent or Transfer Agent having its specified office in the place required by such competent authority, stock exchange and/or quotation system), subject to all applicable laws and competent authority, stock exchange and/or quotation system requirements, upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence and indemnity as the Trustee, the Bank, the Registrar, the Paying Agent or the Transfer Agent may require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

## 17 Notices

Notices to Certificateholders will be deemed to be validly given if mailed to Certificateholders by pre-paid registered mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses in the Register. The Trustee shall also ensure that notices are duly given or published in a manner which complies with the rules and regulations of any listing authority, stock exchange and/or quotation system (if any) on which the Certificates are for the time being admitted to listing, trading and/or quotation. Any notices shall be deemed to have been given on the day (being a day other than a Saturday or a Sunday) after being so mailed (or on the date of publication, or if so published more than once or on different dates, on the date of the first publication).

Notices to be given by any Certificateholder shall be in writing and given by lodging the same, together with evidence of entitlement to the relevant Certificates, with the Principal Paying Agent.

*So long as the Certificates are represented by a Global Certificate and such Global Certificate is held on behalf of Euroclear or Clearstream, Luxembourg, or any other clearing system, notices to the Certificateholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for mailing. Any such notice shall be deemed to have been given to the Certificateholders on the day on which such notice was given to Euroclear and/or Clearstream, Luxembourg and/or such other clearing system.*

## 18 Meetings of Certificateholders, Modification, Waiver, Authorisation and Determination

18.1 The Declaration of Trust contains provisions for convening meetings of Certificateholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Declaration of Trust. Such a meeting may be convened by Certificateholders holding not less than 10 per cent. in face amount of the Certificates for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution will be one or more Eligible Persons (as defined in the Declaration of Trust) present holding or representing in aggregate more than 50 per cent. in face amount of the Certificates for the time being outstanding, or at any adjourned such meeting one or more Eligible Persons whatever the face amount of the Certificates held or represented, except that any meeting the business of which includes consideration of proposals, *inter alia*, (i) to modify any date for payment (including any optional redemption date) in respect of the Certificates, (ii) to reduce or cancel or vary the method or basis for calculating the amount of any payment due in respect of the Certificates, (iii) to change any of the Trustee's and the Bank's covenants set out in the Transaction Documents, (iv) to alter the currency of payment or denomination of the Certificates, (v) to modify the provisions concerning the quorum required at any meeting of Certificateholders or the majority required to pass an Extraordinary Resolution, (vi) to sanction any such scheme or proposal or substitution as is described in paragraphs 5.9(i) and 5.9(j) of Schedule 4 to the Declaration of Trust, or (vii) to amend the above list or the proviso to paragraph 4.6 of Schedule 4 to the Declaration of Trust, in which case the quorum shall be one or more Eligible Persons holding or representing in aggregate not less than 75 per cent., or at any adjourned such meeting not less than 25 per cent., in face amount of the Certificates for the time being outstanding. To be passed, an Extraordinary Resolution requires (i) a majority in favour consisting of not less than 75 per cent. of the votes cast, (ii) a resolution in writing signed by or on behalf of the holders of not less than 75 per cent. in aggregate face amount of the Certificates then outstanding (a "**Written Resolution**") or (iii) where the Certificates are held by or on behalf of a clearing system or clearing systems, approval given by way of electronic consents communicated through the electronic communications systems of the relevant clearing system(s) in accordance with their operating rules and procedures (in a form satisfactory to the Delegate) by or on behalf of the holders of not less than 75 per cent. in aggregate face amount of the Certificates then outstanding (an "**Electronic Consent**"). Any Extraordinary Resolution, if duly passed, will be binding on all Certificateholders, whether or not they were present at the meeting at which such resolution was passed and whether or not they voted.

18.2 The Declaration of Trust provides that a Written Resolution or an Electronic Consent shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Certificateholders duly convened and held. Such a Written Resolution may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Certificateholders. Such a Written Resolution and/or Electronic Consent will be binding on all Certificateholders whether or not they participated in such Written Resolution or Electronic Consent.

18.3 The Delegate may (but shall not be obliged to), without the consent or approval of the Certificateholders (i) agree to any modification to these Conditions, any provisions of the Transaction Documents or to the Trustee's memorandum and articles of association which, in the sole opinion of the Delegate, is of a formal, minor or technical nature or is made to correct a manifest error; (ii) agree to any modification (other than in respect of a Reserved Matter) of these Conditions, any provisions of the Transaction Documents or the Trustee's memorandum and articles of association, or to the waiver or authorisation of any breach or proposed breach of, any of these Conditions or any of the provisions of the Declaration of Trust or the other Transaction Documents; or (iii) determine that any

Dissolution Event or Potential Dissolution Event shall not be treated as such, provided in the case of paragraphs (ii) and (iii) that such modification, waiver, authorisation or determination is not, in the sole opinion of the Delegate, materially prejudicial to the interests of Certificateholders and that such waiver, authorisation or determination is not in contravention of any express direction by Extraordinary Resolution or request in writing by the holders of at least one-fifth of the outstanding aggregate face amount of the Certificates.

18.4 In connection with the exercise by it of any of its powers, authorities and discretions (including, without limitation, those referred to in this Condition 18 (*Meetings of Certificateholders, Modification, Waiver, Authorisation and Determination*), the Delegate shall have regard to the interests of the Certificateholders as a class (but shall not have regard to any interests arising from circumstances particular to individual Certificateholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Certificateholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof) and the Delegate shall not be entitled to require, nor shall any Certificateholder be entitled to claim from the Delegate or any other person, any indemnification or payment in respect of any tax consequence of any such exercise upon individual Certificateholders except to the extent provided in Condition 13 (*Taxation*).

18.5 Any modification, waiver, authorisation or determination shall be binding on all of the Certificateholders and shall be notified by the Trustee to the Certificateholders as soon as practicable thereafter in accordance with Condition 17 (*Notices*).

This Condition 18 (*Meetings of Certificateholders, Modification, Waiver, Authorisation and Determination*) is without prejudice to Condition 10.1(c) (*Redemption or Variation due to Taxation*) and Condition 10.1(d) (*Redemption or Variation for Capital Event*).

## 19 Currency Indemnity

If any sum due from the Trustee in respect of the Certificates or any order or judgment given or made in relation thereto has to be converted from the currency (the "**first currency**") in which the same is payable under these Conditions or such order or judgment into another currency (the "**second currency**") for the purpose of: (a) making or filing a claim or proof against the Trustee; (b) obtaining an order or judgment in any court or other tribunal; or (c) enforcing any order or judgment given or made in relation to the Certificates, the Trustee shall indemnify each Certificateholder, on the written demand of such Certificateholder addressed to the Trustee and delivered to the Trustee or to the specified office of the Principal Paying Agent, against any loss suffered as a result of any discrepancy between: (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency; and (ii) the rate or rates of exchange at which such Certificateholder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of the Trustee and shall give rise to a separate and independent cause of action. In no circumstances will the Delegate incur any liability by virtue of this Condition 19.

## 20 Contracts (Rights of Third Parties) Act 1999

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of these Conditions, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

## 21 Governing Law and Dispute Resolution

### 21.1 Governing Law

The Declaration of Trust (including these Conditions), the Agency Agreement, the Mudaraba Agreement and the Certificates, and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.

### 21.2 Arbitration

The Delegate, the Trustee and the Bank have in the Declaration of Trust agreed that any dispute, claim, difference or controversy arising out of, relating to or having any connection with the Declaration of Trust (including these Conditions and this Condition 21.2) and the Certificates (including any dispute, claim, difference or controversy as to their existence, validity, interpretation, performance, breach or termination or the consequences of the nullity of any of them or a dispute relating to any non-contractual obligations arising out of or in connection with them) (a "**Dispute**") shall be referred to and finally resolved by arbitration in accordance with the Arbitration Rules of the LCIA (the "**Rules**"), which Rules (as amended from time to time) are deemed to be incorporated by reference into this Condition 21.2 (*Arbitration*). For these purposes:

(a) the seat of arbitration shall be London, England;

(b) there shall be three arbitrators, each of whom shall be disinterested in the arbitration and shall be an attorney experienced in international securities transactions. The parties to the Dispute shall each nominate one arbitrator and both arbitrators in turn shall appoint a further arbitrator who shall be the presiding arbitrator of the tribunal. In cases where there are multiple claimants and/or multiple respondents, the class of claimants jointly, and the class of respondents jointly, shall each nominate one arbitrator. If one party or both parties fail to nominate an arbitrator within the time limits specified by the Rules, such arbitrator(s) shall be appointed by the LCIA. If the party nominated arbitrators fail to nominate the third arbitrator within 15 days of the appointment of the second arbitrator, such arbitrator shall be appointed by the LCIA; and

(c) the language of the arbitration shall be English.

### 21.3 Appointment of Process Agent

Each of the Trustee and the Bank has, in the Declaration of Trust, appointed Maples and Calder at its registered office at 11th Floor, 200 Aldersgate Street, London, EC1A 4HD, United Kingdom as its agent for service of process and has undertaken that, in the event of Maples and Calder ceasing so to act or ceasing to be registered in England, it will appoint another person as its agent for service of process in England in respect of any Disputes or proceedings relating to a Dispute ("**Proceedings**") and notify the Delegate and the Certificateholders of such appointment in accordance with this Condition 21.3 (*Appointment of Process Agent*). Nothing herein shall affect the right to serve proceedings in any other manner permitted by law.

### 21.4 Waiver of Immunity

Under the Transaction Documents to which it is a party, the Bank has agreed that, to the extent that it may claim for itself or its assets or revenues immunity from jurisdiction, enforcement, prejudgment proceedings, injunctions and any other legal or arbitral proceedings and relief and to the extent that such immunity (whether or not claimed) may be attributed to it or any of its assets or revenues, it will not claim and has irrevocably and unconditionally waived such immunity in relation to any Proceedings or Disputes. Further, the Bank has irrevocably and unconditionally consented to the giving of any relief or the issue of any process, including, without limitation, jurisdiction, enforcement, prejudgment proceedings and injunctions in connection with any Proceedings or Disputes.

**21.5 Waiver of Interest**

(a) Each of the Trustee, the Delegate and the Bank has irrevocably agreed in the Declaration of Trust that if any arbitration is commenced in relation to a Dispute and/or any Proceedings are brought by or on behalf of a party under the Declaration of Trust, it will (i) not claim interest under, or in connection with, such arbitration and/or Proceedings; and (ii) to the fullest extent permitted by law, waive all and any entitlement it may have to interest awarded in its favour by an arbitrator as a result of such arbitration and/or by a court as a result of such Proceedings.

(b) For the avoidance of doubt, nothing in this Condition 21.5 (*Waiver of Interest*) shall be construed as a waiver of rights in respect of Mudaraba Profit, Final Mudaraba Profit, Rab-al-Maal Mudaraba Profit, Rab-al-Maal Final Mudaraba Profit, Periodic Distribution Amounts, Outstanding Payments or profit of any kind howsoever described payable by the Bank or the Trustee pursuant to the Transaction Documents and/ or these Conditions, howsoever such amounts may be described or re-characterised by any court or arbitral tribunal.

# GLOBAL CERTIFICATE

The Global Certificate contains the following provisions which apply to the Certificates whilst they are represented by the Global Certificate, some of which modify the effect of the Conditions. Unless otherwise defined, terms defined in the Conditions have the same meaning below.

## Form of the Certificates

The Certificates will be in registered form and will be issued outside the United States to persons who are not U.S. persons in reliance on Regulation S.

The Certificates will be represented by ownership interests in a global certificate in registered form (the "**Global Certificate**"). The Global Certificate will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg and will be registered in the name of a nominee for the common depositary. Persons holding ownership interests in the Global Certificate will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of Definitive Certificates in fully registered form.

## Holders

For so long as the Certificates are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear and/or Clearstream, Luxembourg, the registered holder of the Global Certificate shall, except as ordered by a court of competent jurisdiction or as required by law, be treated as the owner thereof (the "**Registered Holder**"). Each of the persons (other than another clearing system) who is for the time being shown in the records of either such clearing system as the holder of a particular aggregate face amount of such Certificates (the "**Accountholders**") (in which regard any certificate or other document issued by a clearing system as to the aggregate face amount of such Certificates standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be deemed to be the Certificateholder in respect of the aggregate face amount of such Certificates standing to its account in the records of Euroclear or Clearstream, Luxembourg, as the case may be, other than for the purpose of payments in respect thereof, the right to which shall be vested solely in the Registered Holder as against the Trustee (and such payment obligations of the Trustee will be discharged by payment to the Registered Holder in respect of each amount so paid), and an Accountholder must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the Registered Holder, and the expressions "**Certificateholder**" and "**holder of Certificates**" and related expressions shall be construed accordingly. In addition, Accountholders will not have a direct right to vote in respect of the relevant Certificates. Instead, Accountholders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

## Cancellation

Cancellation of any Certificate represented by the Global Certificate will be effected by reduction in the aggregate face amount of the Certificates in the Register.

## Payments

Payments of any amount in respect of the Certificate(s) represented by the Global Certificate will, in the absence of any provision to the contrary, be made to, or to the order of, the person shown on the Register as the registered holder of the Global Certificate at the close of business on the record date, which shall be the Clearing System Business Day immediately prior to the due date for payment (where "**Clearing System Business Day**" means Monday to Friday inclusive except 25 December and 1 January). Upon payment of any amount in respect of the Certificates represented by the Global Certificate, the details of such payment shall be entered by the Registrar in the Register.

None of the Trustee, the Delegate, any Paying Agent or the Registrar will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in the Global Certificate or for maintaining, supervising or reviewing any records relating to such ownership interests.

Payments of the Dissolution Distribution Amount in respect of Certificates represented by the Global Certificate will be made upon presentation and surrender of the Global Certificate at the specified office of the Registrar or such other office as may be specified by the Registrar subject to and in accordance with the Conditions and the Declaration of Trust. Distributions of amounts with respect to book-entry interests in the Certificates held through Euroclear or Clearstream, Luxembourg will be credited to the cash accounts of participants in the relevant clearing system in accordance with the relevant clearing system's rules and procedures. A record of each payment made in respect of the Certificates will be entered into the Register by or on behalf of the Registrar and shall be *prima facie* evidence that payment has been made.

### Notices

For so long as all the Certificates are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear and/or Clearstream, Luxembourg, notices may be given by delivery of the relevant notice to those clearing systems for communication to their Accountholders rather than by publication and delivery as required by the Conditions except that, so long as the Certificates are listed on any stock exchange, notices shall also be published in accordance with the rules of such stock exchange. Any such notice shall be deemed to have been given on the day on which such notice is delivered to the relevant clearing systems.

Whilst any of the Certificates held by a Certificateholder are represented by the Global Certificate, notices to be given by such Certificateholder may be given (where applicable) through Euroclear and/or Clearstream, Luxembourg and otherwise in such manner as the Registrar and Euroclear and Clearstream, Luxembourg may approve for this purpose.

### Registration of Title

The Registrar will not register title to the Certificates in a name other than that of a nominee for the Common Depositary for a period of seven calendar days preceding the due date for any payment of any Periodic Distribution Amount or the Dissolution Distribution Amount in respect of the Certificates.

Record dates will be determined in accordance with the standard practices of Euroclear and Clearstream, Luxembourg.

### Transfers

Transfers of book-entry interests in the Certificates will be effected through the records of Euroclear or Clearstream, Luxembourg and their respective direct and indirect participants in accordance with their respective rules and procedures.

### Exchange for Definitive Certificates

Interests in the Global Certificate will be exchangeable (free of charge), in whole but not in part, for Definitive Certificates only upon the occurrence of an Exchange Event. The Trustee will promptly give notice to Certificateholders in accordance with Condition 17 (*Notices*) if an Exchange Event occurs. For these purposes, "**Exchange Event**" means that: (i) a Dissolution Event (as defined in the Conditions) has occurred; or (ii) the Certificates represented by the Global Certificate are held on behalf of Euroclear or Clearstream, Luxembourg or any other clearing system, and any such clearing system has been closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or has announced an intention permanently to cease business or has in fact done so. If an Exchange Event occurs, any of the Trustee, the Delegate or Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in the Global Certificate) may give notice to the Registrar requesting exchange.

In such circumstances, the Global Certificate shall be exchanged in full for Definitive Certificates and the Trustee will, at the cost of the Trustee (but against such indemnity as the Registrar or any relevant Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Definitive Certificates to be executed and delivered to the Registrar within ten days following the request for exchange for completion and dispatch to the Certificateholders. A person having an interest in the Global Certificate must provide the Registrar with a written order containing instructions (and such other information as the Trustee and the Registrar may require) to complete, execute and deliver such Definitive Certificates.

In this Prospectus, "**Definitive Certificate**" means a trust certificate in definitive registered form issued by the Trustee in accordance with the provisions of the Declaration of Trust in exchange for the Global Certificate, such trust certificate substantially in the form set out in the Schedules to the Declaration of Trust.

### Electronic Consent and Written Resolution

While any Global Certificate is registered in the name of any nominee for Euroclear or Clearstream, Luxembourg, then:

(a) approval of a resolution proposed by the Trustee, the Bank or the Delegate (as the case may be) given by way of electronic consents communicated through the electronic communications systems of the relevant clearing system(s) in accordance with their operating rules and procedures by or on behalf of the holders of not less than 75 per cent. in aggregate face amount of the Certificates then outstanding (an Electronic Consent as defined in the Declaration of Trust) shall, for all purposes (including matters that would otherwise require an Extraordinary Resolution to be passed at a meeting for which the special quorum (as specified in the Declaration of Trust) was satisfied), take effect as an Extraordinary Resolution passed at a meeting of Certificateholders duly convened and held, and shall be binding on all Certificateholders whether or not they participated in such Electronic Consent; and

(b) where Electronic Consent is not being sought, for the purpose of determining whether a Written Resolution (as defined in the Declaration of Trust) has been validly passed, the Trustee, the Bank and the Delegate shall be entitled to rely on consent or instructions given in writing directly to the Trustee, the Bank and/or the Delegate, as the case may be, by (a) Accountholders in the clearing system(s) with entitlements to such Global Certificate and/or (b) where the Accountholders hold any such entitlement on behalf of another person, on written consent from or written instruction by the person identified by that Accountholder as the person for whom such entitlement is held. For the purpose of establishing the entitlement to give any such consent or instruction, the Trustee, the Bank and the Delegate shall be entitled to rely on any certificate or other document issued by, in the case of (a) above, Euroclear, Clearstream, Luxembourg or any other relevant alternative clearing system (the "**relevant clearing system**") and, in the case of (b) above, the relevant clearing system and the Accountholder identified by the relevant clearing system for the purposes of (b) above. Any resolution passed in such manner shall be binding on all Certificateholders, even if the relevant consent or instruction proves to be defective. Any such certificate or other document shall, in the absence of manifest error, be conclusive and binding for all purposes. Any such certificate or other document may comprise any form of statement or print out of electronic records provided by the relevant clearing system (including Euroclear's EUCLID or Clearstream, Luxembourg's CreationOnline system) in accordance with its usual procedures and in which the accountholder of a particular principal or nominal amount of the Certificates is clearly identified together with the amount of such holding. None of the Trustee, the Bank and/or the Delegate shall be liable to any person by reason of having accepted as valid or not having rejected any certificate or other document to such effect purporting to be issued by any such person and subsequently found to be forged or not authentic.

# USE OF PROCEEDS

The net proceeds of the issue of the Certificates are expected to amount to U.S.$499,000,000 after deduction of commissions. The proceeds will be paid by the Trustee (as Rab-al-Maal) to the Bank (as Mudareb) as contribution of the Mudaraba Capital pursuant to the terms of the Mudaraba Agreement, in a form which meets or exceeds the requirements of Tier 1 Capital under the Capital Regulations, and will be used by the Bank to support its Tier 1 Capital for the purpose of maintaining its capital adequacy and for its general corporate purposes. These may include (without limitation) funding, in whole or in part, any purchase of the U.S.$250,000,000 Tier 1 Capital Certificates issued by Boubyan Tier 1 Capital SPC Limited, pursuant to the tender offer for such securities announced on 22 March 2021.

## DESCRIPTION OF THE TRUSTEE

### The Trustee

The Trustee, an exempted company incorporated in the Cayman Islands with limited liability, was incorporated on 7 September 2020 under the Companies Act (as revised) of the Cayman Islands with company registration number MC-365964. The registered office of the Trustee is at the offices of MaplesFS Limited, P.O. Box 1093, Queensgate House, Grand Cayman, KY1-1102, Cayman Islands with telephone number +1 345 945 7099.

### Share Capital

The authorised share capital of the Trustee is U.S.$50,000 divided into 50,000 ordinary shares of U.S.$1.00 par value each, 250 of which have been issued. All of the issued shares (the "**Shares**") are fully paid and are held by MaplesFS Limited as share trustee (in such capacity, the "**Share Trustee**") under the terms of a share declaration of trust (the "**Share Declaration of Trust**") under which the Share Trustee holds the Shares in trust until the Termination Date (as defined in the Share Declaration of Trust) and may only dispose or otherwise deal with the Shares in accordance with the Share Declaration of Trust. Prior to the Termination Date, the trust is an accumulation trust, but the Share Trustee has power to benefit Qualified Charities (as defined in the Share Declaration of Trust). It is not anticipated that any distribution will be made whilst any Certificates are outstanding. Following the Termination Date, the Share Trustee will wind up the trust and make a final distribution to charity. The Share Trustee has no beneficial interest in, and derives no benefit (other than its fee for acting as Share Trustee) from, its holding of the Shares.

### The Business of the Trustee

The objects for which the Trustee is established are set out in clause 3 of its Memorandum of Association as registered or adopted on 7 September 2020.

The Trustee has no prior operating history or prior business and will not have any substantial assets or liabilities other than in connection with the Certificates.

The Certificates are the obligations of the Trustee alone and not the Share Trustee. Furthermore, they are not the obligations of, or guaranteed in any way by, MaplesFS Limited or any other party.

### Financial Statements

Since the date of incorporation, no financial statements of the Trustee have been prepared. The Trustee is not required by Cayman Islands law, and does not intend, to publish audited financial statements or appoint any auditors.

### Directors of the Trustee

The directors of the Trustee are as follows:

| Name | Principal Occupation |
| --- | --- |
| John Curran | Vice President at Maples Fund Services (Middle East) Limited |
| Linval Stewart | Vice President at MaplesFS Limited |

The business address of John Curran is Maples Fund Services (Middle East) Limited, Level 14, Burj Daman, Dubai International Financial Centre, P.O. Box 506734, Dubai, United Arab Emirates.

The business address of Linval Stewart is MaplesFS Limited, P.O. Box 1093, Boundary Hall, Cricket Square, Grand Cayman, KY1-1102, Cayman Islands.

The Trustee's Articles of Association provide that the board of directors of the Trustee will consist of at least one director.

## Conflicts

There are no potential conflicts of interest between the duties of the directors of the Trustee to the Trustee and their private interests or other duties.

## Secretary

The Trustee's secretary is Maples Secretaries (Cayman) Limited of P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

## The Trustee Administrator

MaplesFS Limited also acts as the administrator of the Trustee (in such capacity, the "**Trustee Administrator**"). The office of the Trustee Administrator serves as the general business office of the Trustee. Through the office, and pursuant to the terms of a corporate services agreement entered into between the Trustee and the Trustee Administrator (the "**Corporate Services Agreement**"), the Trustee Administrator has agreed to perform in the Cayman Islands, the United Arab Emirates and/or such other jurisdiction as may be agreed by the parties from time to time various management functions on behalf of the Trustee and to provide certain clerical, administrative and other services until termination of the Corporate Services Agreement. The Trustee Administrator will also provide registered office services to the Trustee in accordance with its standard terms and conditions for the provision of registered office services (the "**Registered Office Terms**"). In consideration of the foregoing, the Trustee Administrator will receive various fees payable by the Trustee at rates agreed upon from time to time, plus expenses.

The terms of the Corporate Services Agreement and the Registered Office Terms provide that either the Trustee or the Trustee Administrator may terminate such appointments upon the occurrence of certain stated events, including any breach by the other party of its obligations under such agreements. In addition, the Corporate Services Agreement and the Registered Office Terms provide that either party shall be entitled to terminate such agreements by giving at least three months' notice in writing to the other party.

The Trustee Administrator will be subject to the overview of the Trustee's board of directors.

The Trustee Administrator's principal office is P.O. Box 1093, Boundary Hall, Cricket Square, Grand Cayman, KY1-1102, Cayman Islands.

The directors of the Trustee are all employees or officers of the Trustee Administrator or an affiliate thereof.

## SELECTED FINANCIAL INFORMATION

*The following information has been extracted from, and should be read in conjunction with, and is qualified in its entirety by reference to, the Financial Statements. See also "Presentation of Certain Financial and Other Information" for a discussion of the sources of the numbers contained in this section.*

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

The table below shows the Group's consolidated statement of financial position as at the dates indicated.

| | As at 31 December | | |
|---|---|---|---|
| | **2020** | **2019** | **2018** |
| | | *(KD '000)* | |
| **Assets** | | | |
| Cash and balances with banks | 286,718 | 232,393 | 83,805 |
| Deposits with Central Bank of Kuwait | 336,934 | 306,156 | 244,685 |
| Deposits with other banks | 180,092 | 330,046 | 237,088 |
| Islamic financing to customers | 4,823,266 | 3,826,073 | 3,262,285 |
| Investment in Sukuk | 523,046 | 306,315 | 309,339 |
| Other investment securities | 99,109 | 101,215 | 73,500 |
| Investments in associates | 4,073 | 33,144 | 28,916 |
| Investment properties | 47,133 | 46,555 | 24,036 |
| Other assets | 45,419 | 32,422 | 24,088 |
| Property and equipment | 91,359 | 86,229 | 57,036 |
| **Total assets** | 6,437,149 | 5,300,548 | 4,344,778 |
| **Liabilities** | | | |
| Due to banks | 281,371 | 236,480 | 97,216 |
| Depositors' accounts | 5,107,728 | 4,347,226 | 3,720,935 |
| Medium term financing | 305,509 | — | — |
| Other liabilities | 115,811 | 63,661 | 40,667 |
| **Total liabilities** | 5,810,419 | 4,647,367 | 3,858,818 |
| **Equity** | | | |
| Share capital | 302,827 | 288,407 | 238,847 |
| Share premium | 156,942 | 156,942 | 62,896 |
| Treasury shares | (54) | (54) | (643) |
| Statutory reserve | 35,512 | 31,848 | 25,251 |
| Voluntary reserve | 30,468 | 30,468 | 24,158 |
| Other reserves | (21,958) | (8,354) | (4,993) |
| Retained earnings | 14,123 | 76,191 | 62,741 |

| | As at 31 December | | |
|---|---|---|---|
| | 2020 | 2019 | 2018 |
| | | (KD '000) | |
| **Equity attributable to equity holders of the Bank** | 517,860 | 575,448 | 408,257 |
| Perpetual Tier 1 sukuk | 75,388 | 75,388 | 75,388 |
| Non-controlling interests | 33,482 | 2,345 | 2,315 |
| **Total equity** | 626,730 | 653,181 | 485,960 |
| **Total liabilities and equity** | 6,437,149 | 5,300,548 | 4,344,778 |

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

The table below shows the Group's consolidated statement of profit or loss for the years indicated.

| | Year ended 31 December | | |
|---|---|---|---|
| | 2020 | 2019 | 2018 |
| | | *(KD '000)* | |
| **Income** | | | |
| Murabaha and other Islamic financing income | 223,064 | 207,629 | 182,942 |
| Finance cost and distribution to depositors | (84,175) | (88,170) | (62,636) |
| **Net financing income** | 138,889 | 119,459 | 120,306 |
| Net investment income | 6,836 | 6,195 | 2,968 |
| Net fees and commission income | 12,275 | 16,428 | 13,436 |
| Net foreign exchange gain | 5,157 | 3,687 | 3,011 |
| Other income | 4,325 | — | — |
| **Net Operating income** | 167,482 | 145,769 | 139,721 |
| Staff costs | (45,230) | (36,094) | (33,633) |
| General and administrative expenses | (20,011) | (17,078) | (18,834) |
| Depreciation | (9,156) | (7,892) | (4,288) |
| **Operating expenses** | (74,397) | (61,064) | (56,755) |
| **Operating profit before provision for impairment** | 93,085 | 84,705 | 82,966 |
| Provision for impairment | (59,015) | (18,711) | (23,839) |
| **Operating profit before deductions** | 34,070 | 65,994 | 59,127 |
| Taxation | (73) | (2,867) | (2,557) |
| Board of directors' remuneration | (450) | (450) | (360) |
| **Net profit for the year** | 33,547 | 62,677 | 56,210 |
| *Attributable to:* | | | |

| | Year ended 31 December | | |
|---|---|---|---|
| | 2020 | 2019 | 2018 |
| | | (KD '000) | |
| Equity holders of the Bank | 34,421 | 62,647 | 56,108 |
| Non-controlling interests | (874) | 30 | 102 |
| **Net profit for the year** | 33,547 | 62,677 | 56,210 |
| **Basic and diluted earnings per share attributable to the equity holders of the Bank (fils)** | 9.66 | 19.41 | 19.17 |

## CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

The table below shows the Group's consolidated statement of other comprehensive income for the years indicated.

| | Year ended 31 December | | |
|---|---|---|---|
| | 2020 | 2019 | 2018 |
| | | (KD '000) | |
| **Net profit for the year** | 33,547 | 62,677 | 56,210 |
| **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 | (454) |
| Foreign currency translation adjustments | 687 | 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 | (5,669) | (9,675) | (660) |
| Re-measurement loss on post-employment benefits | (3,092) | — | — |
| **Other comprehensive loss for the year** | (10,935) | (2,943) | (1,755) |
| **Total comprehensive income for the year** | 22,612 | 59,734 | 54,455 |
| *Attributable to*: | | | |
| Equity holders of the Bank | 21,784 | 59,704 | 54,353 |
| Non-controlling interests | 828 | 30 | 102 |
| **Total comprehensive income for the year** | 22,612 | 59,734 | 54,455 |

## CONSOLIDATED STATEMENT OF CASH FLOWS

The table below summarises the Group's consolidated statement of cash flows for the years indicated.

| | Year ended 31 December | | |
|---|---|---|---|
| | 2020 | 2019 | 2018 |
| | | (KD '000) | |
| Net cash (used in)/generated from operating activities | (7,564) | 327,637 | 174,273 |
| Net cash used in investing activities | (194,104) | (90,754) | (120,017) |
| Net cash generated from/(used in) financing activities | 273,526 | 107,487 | (20,867) |
| **Net increase in cash and cash equivalents** | 71,858 | 344,970 | 33,389 |
| Net foreign exchange difference | 5,605 | 600 | — |
| Cash and cash equivalents at the beginning of the year | 509,737 | 164,767 | 131,378 |
| **Cash and cash equivalents at the end of the year** | 587,200 | 509,737 | 164,767 |

## MATURITY PROFILE DATA

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

| | As at 31 December 2020 | | | | |
|---|---|---|---|---|---|
| | Up to 3 months | 3 to 6 months | 6 months to 1 year | Over 1 year | Total |
| | | | (KD '000) | | |
| **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 other 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 |

| | As at 31 December 2020 | | | | |
|---|---|---|---|---|---|
| | Up to 3 months | 3 to 6 months | 6 months to 1 year | Over 1 year | Total |
| | | | (KD '000) | | |
| 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 |

| | As at 31 December 2019 | | | | |
|---|---|---|---|---|---|
| | Up to 3 months | 3 to 6 months | 6 months to 1 year | Over 1 year | Total |
| | | | (KD '000) | | |
| **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 other 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 |

| | As at 31 December 2018 | | | | |
|---|---|---|---|---|---|
| | Up to 3 months | 3 to 6 months | 6 months to 1 year | Over 1 year | Total |
| | | | (KD '000) | | |
| **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 other banks | 237,088 | — | — | — | 237,088 |

| | As at 31 December 2018 | | | | |
|---|---|---|---|---|---|
| | **Up to 3 months** | **3 to 6 months** | **6 months to 1 year** | **Over 1 year** | **Total** |
| | | | *(KD '000)* | | |
| 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 |

## SELECTED RATIOS

The table below shows selected ratios of the Group as at the dates indicated. For a further description of these ratios (including calculation methodology), see "*Presentation of Certain Financial and Other Information – Presentation of Financial Information – Presentation of Alternative Performance Measures*". The capitalisation measures below have been calculated in accordance with the guidelines of the Basel Committee as adopted by the CBK.

| | Year ended 31 December | | |
|---|---|---|---|
| | **2020** | **2019** | **2018** |
| | | *(%)* | |
| **Performance measures** | | | |
| Return on average assets | 0.6 | 1.3 | 1.3 |
| Return on average equity | 5.5 | 11.4 | 12.7 |
| Cost to income ratio | 44.4 | 41.9 | 40.6 |
| **Profitability measures** | | | |
| Net profit rate margin | 2.5 | 2.7 | 3.1 |
| Net profit margin | 20.6 | 43.0 | 40.2 |
| Impaired Islamic financing ratio | 1.1 | 0.8 | 0.8 |
| Provision for impairment ratio | 233.6 | 210.5 | 251.6 |

| | Year ended 31 December | | |
| --- | --- | --- | --- |
| | 2020 | 2019 | 2018 |
| | | *(%)* | |
| Liquid assets ratio | 22.2 | 24.1 | 21.8 |
| Liquidity coverage ratio | 153.8 | 135.8 | 185.7 |
| Islamic financing to customers to depositors' account and due to banks ratio | 89.5 | 83.5 | 85.4 |
| Islamic financing to customers to depositors' account ratio | 94.4 | 88.0 | 87.7 |
| **Capitalisation measures** | | | |
| CET1 capital adequacy ratio | 13.7 | 16.8 | 14.3 |
| Tier 1 capital adequacy ratio | 15.6 | 19.2 | 17.1 |
| Total capital adequacy ratio | 16.9 | 20.3 | 18.2 |
| Leverage ratio | 9.4 | 11.2 | 10.0 |

# FINANCIAL REVIEW

*The following discussion and analysis should be read in conjunction with the information set out in "Presentation of Certain Financial and Other Information – Presentation of Financial Information – Presentation of Alternative Performance Measures", "Selected Financial Information" and the Financial Statements.*

## OVERVIEW

The Group is one of Kuwait's largest Islamic banks in terms of total assets and total deposits based on annual reports published by Kuwaiti banks (see further "*Description of the Group – Competition in Kuwait*"). The Group is primarily a local bank extending financing principally to companies and individuals in Kuwait. The Group's core businesses are Islamic consumer and corporate banking, although it also offers investment, wealth management and insurance services.

The Group's principal focus is on growing its market share in Kuwait whilst also expanding its products and services offerings, including through product and channel innovation and building its presence outside of Kuwait through its ownership of shareholdings in an entity in the UK (see further "*Description of the Group – Strategy*").

As at 31 December 2020, the Group's Islamic financing to customers was KD 4.8 billion (compared to KD 3.8 billion as at 31 December 2019) while the Group's depositors' accounts were KD 5.1 billion (compared to KD 4.3 billion as at 31 December 2019). For the year ended 31 December 2020, the Group's operating income was KD 167.5 million (compared to KD 145.8 million for the year ended 31 December 2019) while its net profit attributable to shareholders for the year was KD 34.4 million (compared to KD 62.6 million for the year ended 31 December 2019).

## PRINCIPAL FACTORS AFFECTING RESULTS OF OPERATIONS

The following is a discussion of the principal factors that have affected, or are expected to affect, the Group's results of operations.

### Impact of COVID-19 Pandemic

The COVID-19 pandemic has, to date, had a prolonged impact on the global economy (see "*Risk Factors - Risks relating to the Bank and its ability to fulfil its obligations under the Transaction Documents - The outbreak of communicable diseases around the world, in particular the COVID-19 pandemic, has led to economic volatility, which may materially and adversely affect the Group's business, financial condition and results of operations*"). In response to this, the Group took a number of proactive measures and activated emergency plans during the early stages of the crisis in order to protect its employees and ensure business continuity (see further "*Risk Management – Response to COVID-19*").

Additionally, in coordination with the CBK and the Kuwait Banking Association, the Group participated in all initiatives aimed at lifting the pressures customers were facing. For example, the Group provided support to individuals by deferring consumer loans, instalment loans and credit card instalments for a period of six months for almost all customers. The Group also provided financing through the Government support programme to individuals, SMEs, and economic entities impacted by the COVID-19 crisis.

The Group implemented the consumer and other instalment loans deferral by postponing the instalments falling due within the six month period from 1 April 2020 to 30 September 2020 with a corresponding extension of the facility tenure resulting in a loss of KD 48.2 million to the Group arising from the modification of contractual cash-flows. This loss is charged to retained earnings in accordance with the Group's accounting policy.

The lockdown and slower economic activity during 2020 resulted in lower transaction volumes and the Group's gross fees and commission income decreased from KD 24.6 million for the year ended 31 December 2019 to KD 22.0 million for the year ended 31 December 2020. The Group's net profit margins were also impacted by the conservative provisioning mandated by the CBK in response to COVID-19. For the year ended 31 December 2020, the Group had recorded provisions of KD 59.0 million in line with the CBK's policy, compared to provisions of KD 18.7 million for the year ended 31 December 2019.

### Economic conditions

The Group is a local bank focused on extending financing to, and accepting deposits from, institutions, companies and residents in Kuwait. As a result, its revenues and results of operations are affected by economic and market conditions in Kuwait and, to a lesser extent, in certain other MENA region countries and the UK.

According to the CBK and the KSB, Kuwait's real GDP decreased by 3.0 per cent. in 2019 compared to 2018. Based on data published by the IMF in December 2020, Kuwait's real GDP is projected to have decreased by 8.1 per cent. in 2020 and to grow by 0.6 per cent. in 2021. According to the IMF's 2020 Staff Report on its Article IV Consultation with Kuwait, non-oil growth strengthened and Kuwait's credit "rebounded" due to, *inter alia*, the CBK's management of monetary conditions.

The Group also remains exposed to the risk of external changes, such as an increase in global financial market volatility, which could pose funding, market and credit risks for investment companies and banks.

### Factors affecting net income from Islamic financing to customers

The Group's net financing income is a major contributor to its total operating income, comprising 82.9 per cent. of its operating income for the year ended 31 December 2020 (compared to 82.0 per cent. for the year ended 31 December 2019 and 86.1 per cent. for the year ended 31 December 2018).

The Group's net financing income is affected by a number of factors. It is primarily determined by the volume of Islamic financing to customers relative to distribution to depositors' costs, as well as murabaha costs. The Group's Islamic financing to customers principally consists of murabaha and ijara products provided to corporate and individual customers. The Group's distribution to depositors and murabaha costs is determined by the Group's results at the end of the month in relation to all products.

For the year ended 31 December 2020, the Group's average Islamic financing to customers (based on balances as at the start and end of each period) was KD 4,324.7 million, compared to KD 3,544.2 million for the year ended 31 December 2019, representing an increase of KD 780.5 million or 22.0 per cent.

The year-on-year growth in the Group's net financing income between 2019 and 2020 was primarily attributable to the growth in the volume of the Group's Islamic financing to customers and Sukuk offset by a decline in net profit rate margin.

For the year ended 31 December 2020, the Group's average customer financing portfolio (based on balances as at the start and end of each year) was KD 4.3 billion, compared to KD 3.5 billion for the year ended 31 December 2019 and KD 3.1 billion for the year ended 31 December 2018, representing an increase of KD 0.8 billion or 22.0 per cent. between 2019 and 2020 and an increase of KD 0.4 billion or 15.5 per cent. between 2019 and 2018.

### Movements in provision charge for impairments

For the year ended 31 December 2020, the Group's provision charge for impairment was KD 59.0 million, compared to KD 18.7 million for the year ended 31 December 2019, representing an increase of KD 40.3 million or 215.5 per cent. This increase was primarily attributable to the allocation of precautionary provisions against the future repercussions of the COVID-19 pandemic.

For the year ended 31 December 2019, the Group's provision charge for impairment was KD 18.7 million, compared to KD 23.8 million for the year ended 31 December 2018, representing a decrease of KD 5.1 million or 21.4 per cent. This decrease was primarily attributable to higher impairment loss taken on associates for the year ended 31 December 2018 offset by a marginal increase in provisions for impairment of Islamic financing to customers.

## SIGNIFICANT ACCOUNTING POLICIES

The Financial Statements have been prepared in accordance with the regulations for financial services institutions as issued by the CBK in Kuwait which require banks and other financial institutions regulated by the CBK to adopt IFRS with certain amendments (see Note 2 (*Basis of Preparation*) to the 2020 Financial Statements). For a discussion of the accounting policies applied by the Group generally, see Note 3 (*Significant accounting policies*) to the 2020 Financial Statements.

## SIGNIFICANT ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In preparing the Group's financial statements, management is required to make certain estimates, judgements and assumptions. These affect the reported amounts of the Group's assets and liabilities, including disclosure of contingent assets and liabilities, as at the date of the financial statements as well as the reported amounts of its revenues and expenses during the periods presented. Management bases its estimates and assumptions on historical experience and other factors that it believes to be reasonable at the time the estimates and assumptions are made and evaluates the estimates and assumptions on an ongoing basis. However, future events and their effects cannot be predicted with certainty and the determination of appropriate estimates and assumptions requires the use of judgement. Actual outcomes may differ from any estimates or assumptions made and such differences may be material to the financial statements.

Management has identified the most significant judgements and estimates made by it in Note 4 (*Critical accounting judgments and key sources of estimation uncertainty*) to the 2020 Financial Statements. These judgements and estimates include, for example, the determination of fair value measurements, the estimation of recoverable amount in connection with the calculation of impairment of investment in associates, the classification of financial assets, estimations required in connection with the calculation of ECL on financial assets, the determination of whether a provision for impairment should be recorded in connection with any Islamic financing to customers and estimations required in connection with the valuation of unquoted equity investments.

## RESULTS OF OPERATIONS FOR THE YEARS ENDED 31 DECEMBER 2020, 2019 AND 2018

### Net income from murabaha and other Islamic financing

The Group earns income from murabaha and other Islamic financing on the Islamic financing to customers. The Group incurs Islamic financing costs through the distributions it makes to its Islamic depositors and costs related to its murabaha financing. Islamic financing income is recognised in the income statement on a basis which reflects a constant periodic return on the outstanding net investment relating to that financing. Islamic financing costs are recognised in the income statement on the basis of the type of depositor account. Islamic financing costs on murabaha and wakala products are recognised on an effective yield basis, which is established on initial recognition of the liability, and on other products, are recognised based on rates determined by reference to the Group's results at the end of every month.

For the year ended 31 December 2020, the Group's murabaha and other Islamic financing income was KD 223.1 million, compared to KD 207.6 million for the year ended 31 December 2019, representing an increase of KD 15.5 million or 7.5 per cent. This increase was primarily attributable to an increase in the volume of Islamic financing to customers resulting from organic growth, the impact of the consolidation of BLME, and growth in Sukuk offset by a decrease in yield of profit earning assets due to rate cuts implemented during the year ended 31 December 2020 in response to the COVID-19 pandemic.

For the year ended 31 December 2019, the Group's murabaha and other Islamic financing income was KD 207.6 million, compared to KD 182.9 million for the year ended 31 December 2018, representing an increase of KD 24.7 million or 13.5 per cent. This increase was primarily attributable to growth in volume of Islamic financing to customers and Sukuk.

For the year ended 31 December 2020, the Group's finance cost and distribution to depositors was KD 84.2 million, compared to KD 88.2 million for the year ended 31 December 2019, representing a decrease of KD 4.0 million or 4.5 per cent. This decrease was primarily attributable to growth in depositors' accounts and medium term financing to support volume growth being offset by lower costs of funds due to rate cuts implemented during the year ended 31 December 2020 in response to the COVID-19 pandemic.

For the year ended 31 December 2019, the Group's finance cost and distribution to depositors was KD 88.2 million, compared to KD 62.6 million for the year ended 31 December 2018, representing an increase of KD 25.6 million or 40.9 per cent. This increase was primarily attributable to growth in depositors' accounts to support volume growth and higher cost of funds due to an increase in repo rates.

Reflecting the above factors, the Group's net financing income for the year ended 31 December 2020 was KD 138.9 million, compared to KD 119.5 million for the year ended 31 December 2019 and KD 120.3 million for the year ended 31 December 2018, representing an increase of KD 19.4 million or 16.2 per cent. between 2019 and 2020, and a decrease of KD 0.8 million or 0.7 per cent. between 2018 and 2019.

### Net fees and commission

The Group earns fees and commissions on non-cash business (such as letters of credit and guarantees issued by the Bank), and on other bank services provided by it, including asset management, account servicing and syndication fees and card-related fees. The Group pays fees and commissions principally in respect of its credit card offering.

For the year ended 31 December 2020, the Group's gross fees and commission income was KD 22.0 million, compared to KD 24.6 million for the year ended 31 December 2019, representing a decrease of KD 2.6 million or 10.6 per cent. This decrease was primarily attributable to a decrease in credit card utilisation by customers as a result of the lockdown measures imposed in response to the COVID-19 pandemic and a decrease in non-cash business due to the COVID-19 pandemic offset by the impact of the consolidation of BLME into the Group.

For the year ended 31 December 2020, the Group's fees and commission expenses were KD 9.7 million, compared to KD 8.2 million for the year ended 31 December 2019, representing an increase of KD 1.5 million or 18.3 per cent. This increase was primarily attributable to the impact of the consolidation of BLME into the Group.

For the year ended 31 December 2019, the Group's gross fees and commission income was KD 24.6 million, compared to KD 20.0 million for the year ended 31 December 2018, representing an increase of KD 4.6 million or 23.4 per cent. This increase was primarily attributable to an increase in the number of customers and credit card utilisation, and growth in the asset management and non-cash business.

For the year ended 31 December 2019, the Group's fees and commission expenses were KD 8.2 million, compared to KD 6.5 million for the year ended 31 December 2018, representing an increase of KD 1.7 million or 25.6 per cent. This increase was primarily attributable to growth in the retail business and the credit card business.

Reflecting the above factors, the Group's net fees and commission for the year ended 31 December 2020 was KD 12.3 million, compared to KD 16.4 million for the year ended 31 December 2019 and KD 13.4 million for the year ended December 2018, representing a decrease of KD 4.1 million or 25.3 per cent. between 2019 and 2020 and an increase of KD 3.0 million or 22.3 per cent. between 2018 and 2019.

### Other sources of operating income

The Group's other sources of operating income principally include net investment income, its share of the results of its associates and net gains from dealing in foreign currencies.

The table below shows the Group's operating income from other sources for the years indicated.

| | Year ended 31 December | | |
|---|---|---|---|
| | **2020** | **2019** | **2018** |
| | | *(KD '000)* | |
| Net investment income | 6,564 | 4,155 | 1,051 |
| Share of results of associates | 272 | 2,040 | 1,917 |
| Net foreign exchange gain | 5,157 | 3,687 | 3,011 |
| Other income | 4,324 | — | — |
| **Operating income from other sources** | 16,318 | 9,882 | 5,979 |

For the year ended 31 December 2020, the Group's operating income from other sources was KD 16.3 million, compared to KD 9.9 million for the year ended 31 December 2019, representing an increase of KD 6.4 million or 65.1 per cent. This increase was primarily attributable to a net gain arising from the consolidation of BLME into the Group, COVID-19 support from the Government, higher rental income offset by a lower share of results from associates and unrealised loss from a change in the fair value of investment properties.

For the year ended 31 December 2019, the Group's operating income from other sources was KD 9.9 million, compared to KD 6.0 million for the year ended 31 December 2018, representing an increase of KD 3.9 million or 65.3 per cent. This increase was primarily attributable to higher dividend income from funds and gain on deemed acquisition in an associate.

### Operating expenses

The Group's operating expenses comprise staff costs, general and administrative expenses and depreciation.

The table below shows the Group's operating expenses for the years indicated.

| | Year ended 31 December | | | | | |
|---|---|---|---|---|---|---|
| | 2020 | | 2019 | | 2018 | |
| | *(KD '000)* | *(% of total)* | *(KD '000)* | *(% of total)* | *(KD '000)* | *(% of total)* |
| Staff costs | (45,230) | 60.8 | (36,094) | 59.1 | (33,633) | 59.2 |
| General and administrative expenses | (20,011) | 26.9 | (17,078) | 28.0 | (18,834) | 33.2 |
| Depreciation | (9,156) | 12.3 | (7,892) | 12.9 | (4,288) | 7.6 |
| Operating expenses | (74,397) | 100.0 | (61,064) | 100.0 | (56,755) | 100.0 |

For the year ended 31 December 2020, the Group's operating expenses were KD 74.4 million, compared to KD 61.1 million for the year ended 31 December 2019, representing an increase of KD 13.3 million or 21.8 per cent. This increase was primarily attributable to an increase in staff costs, due to annual salary increments and an increase in the number of staff within the Group, and the impact of the consolidation of BLME into the Group which were both offset by lower general and administration costs due to cessation of certain activities due to the COVID-19 pandemic.

For the year ended 31 December 2019, the Group's operating expenses were KD 61.1 million, compared to KD 56.8 million for the year ended 31 December 2018, representing an increase of KD 4.3 million or 7.6 per cent. This increase was primarily attributable to growth in business, inflation and investment in digital initiatives.

### Provision for impairment

For information on provisions for impairment, please see "*Financial Review – Principal Factors Affecting Results of Operations – Movements in provision charge for impairments*".

### Operating profit before deductions

Reflecting the above factors, the Group's operating profit before deductions for the year ended 31 December 2020 was KD 34.1 million, compared to KD 66.0 million for the year ended 31 December 2019 and KD 59.1 million for the year ended 31 December 2018, representing a decrease of KD 31.9 million or 48.3 per cent. between 2019 and 2020 and an increase of KD 6.9 million or 11.6 per cent. between 2018 and 2019.

### Taxation

The Group's taxation charge comprises the national labour support tax charged in Kuwait, its contribution to the Kuwait Foundation for the Advancement of Sciences, its zakat charge and international taxes. Together, these amounted to KD 0.1 million for the year ended 31 December 2020, compared to KD 2.9 million for the year ended 31 December 2019 and KD 2.6 million for the year ended 31 December 2018, representing a decrease of KD 2.8 million or 97.5 per cent. between 2019 and 2020 and an increase of KD 0.3 million or 12.1 per cent. between 2018 and 2019.

### Net profit for the year

Reflecting the above factors, the Group's net profit for the year ended 31 December 2020 was KD 33.5 million, compared to KD 62.7 million for the year ended 31 December 2019 and KD 56.2 million for the year ended 31 December 2018, representing a decrease of KD 29.2 million or 46.5 per cent. between 2019 and 2020 and an increase of KD 6.5 million or 11.5 per cent. between 2018 and 2019.

## Other comprehensive income/(loss)

The Group's other comprehensive income/(loss) principally comprises changes in the fair value of its debt instruments at fair value through other comprehensive income, changes in the fair value of its equity investments at fair value through other comprehensive income, re-measurement loss on post-employment benefits and foreign currency translation adjustments.

For the year ended 31 December 2020 the Group's other comprehensive loss was KD 10.9 million compared to KD 2.9 million for the year ended 31 December 2019. This change was primarily attributable to a decrease in the fair value of debt and equity instruments and re-measurement losses on post-employment benefits.

For the year ended 31 December 2019 the Group's other comprehensive loss was KD 2.9 million compared to KD 1.8 million for the year ended 31 December 2018. This change was primarily attributable to an increase in the fair value of debt instruments offset by a decrease in the fair value of equity instruments.

## Total comprehensive income for the year

Reflecting the Group's net profit for the year and the Group's other comprehensive loss for the year, the Group's total comprehensive income for the year ended 31 December 2020 was KD 22.6 million, compared to KD 59.7 million for the year ended 31 December 2019 and KD 54.5 million for the year ended 31 December 2018, representing a decrease of KD 37.1 million or 62.1 per cent. between 2019 and 2020 and an increase of KD 5.2 million or 9.7 per cent. between 2018 and 2019.

## Segmental analysis

The Group's operating segments are classified on the basis of business segments and geographic segments. For further information on the Group's segment reporting, please see Note 31 (*Segment reporting*) to the 2020 Financial Statements and Note 29 (*Segment reporting*) to the 2019 Financial Statements.

### *Business segments*

The Group's business segments comprise:

- consumer banking, which provides a diversified range of products and services to individuals and institutional customers, including consumer finance, credit cards, deposits and other branch-related services;
- corporate banking, which provides murabaha, ijara, trade service and other related services to business and corporate customers;
- investment banking and international operations, which handles the Group's direct investments, investments in associates, local and international real estate investment, and asset and wealth management including BLME activities;
- treasury, which handles the Group's local and international murabaha and other Islamic financing, primarily with other banks, and manages the Bank's funding operations; and
- Group centre, which includes other Group-related and residual activities in respect of transfer pricing and inter-segment allocation.

The tables below show certain segment income information for the years indicated and certain asset information as at the dates indicated.

| | Consumer banking | Corporate banking | Investment banking and international operations | Treasury | Group centre | Total |
|---|---|---|---|---|---|---|
| | | | *(KD '000)* | | | |
| **Year ended 31 December 2020** | | | | | | |
| Net financing income/(loss) | 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 |
| **Year ended 31 December 2019** | | | | | | |
| Net financing income/loss | 67,590 | 35,542 | (3,543) | 5,859 | 14,011 | 119,459 |
| Operating income/(loss) | 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 |
| **Year ended 31 December 2018** | | | | | | |
| Net financing income/(loss) | 64,924 | 36,858 | (2,896) | 11,350 | 10,070 | 120,306 |
| Operating income | 71,525 | 44,503 | 4,248 | 14,361 | 5,084 | 139,721 |
| Net profit/(loss) for the year | 38,078 | 31,827 | (8,044) | 13,803 | (19,454) | 56,210 |

| | Consumer banking | Corporate banking | Investment banking and international operations | Treasury | Group centre | Total |
|---|---|---|---|---|---|---|
| | | | *(KD '000)* | | | |
| **As at 31 December 2020** | | | | | | |
| 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 |
| **As at 31 December 2019** | | | | | | |
| 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 |
| **As at 31 December 2018** | | | | | | |
| 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 |

*Consumer banking segment*

For the year ended 31 December 2020, the consumer banking segment had an operating income of KD 84.2 million, compared to KD 74.5 million for the year ended 31 December 2019, representing an increase of KD 9.7 million or 12.9 per cent. This increase was primarily attributable to growth in Islamic financing to customers and depositors' accounts.

For the year ended 31 December 2019, the consumer banking segment had an operating income of KD 74.5 million, compared to KD 71.5 million for the year ended 31 December 2018, representing an increase of KD 3.0 million or 4.2 per cent. This increase was primarily attributable to growth in business activities, including Islamic financing to customers, depositors' accounts and fee income.

*Corporate banking segment*

For the year ended 31 December 2020, the corporate banking segment had an operating income of KD 46.4 million, compared to KD 43.9 million for the year ended 31 December 2019, representing an increase of KD 2.5 million or 5.6 per cent. This increase was primarily attributable to growth in business volume offset by lower fee and commission income due to the COVID-19 pandemic.

For the year ended 31 December 2019, the corporate banking segment had an operating income of KD 43.9 million, compared to KD 44.5 million for the year ended 31 December 2018, representing a decrease of KD 0.6 million or 1.3 per cent. This decrease was primarily attributable to growth in business volume and fee and commission income offset by an increase in cost of funds.

*Investment banking and international operations segment*

For the year ended 31 December 2020, the investment banking and international operations segment had an operating income of KD 17.9 million, compared to KD 9.6 million for the year ended 31 December 2019, representing an increase of KD 8.3 million or 86.5 per cent. This increase was primarily attributable to the impact of consolidation of BLME into the Group, gains on business combination and increases in rental income from investment properties.

For the year ended 31 December 2019, the investment banking and international operations segment, which in 2019 was referred to as the “investment banking” segment, had an operating income of KD 9.6 million, compared to KD 4.2 million for the year ended 31 December 2018, representing an increase of KD 5.4 million or 128.6 per cent. This increase was primarily attributable to higher investment management fee and investment income.

*Treasury segment*

For the year ended 31 December 2020, the treasury segment had an operating income of KD 10.4 million, compared to KD 9.5 million for the year ended 31 December 2019, representing an increase of KD 0.9 million or 9.5 per cent. This increase was primarily attributable to lower cost of funds due to rate cuts implemented in the year ended 31 December 2020 in response to the COVID-19 pandemic.

For the year ended 31 December 2019, the treasury segment had an operating income of KD 9.5 million, compared to KD 14.4 million for the year ended 31 December 2018, representing a decrease of KD 4.9 million or 34.0 per cent. This decrease was primarily attributable to higher cost of funds due to increases in repo rates.

*Group centre segment*

For the year ended 31 December 2020, the Group centre segment had an operating income of KD 8.5 million, compared to an operating income of KD 8.1 million for the year ended 31 December 2019. This change was primarily attributable to movements in the pricing of fund transfers and COVID-19 support from the Government.

For the year ended 31 December 2019, the Group centre segment had an operating income of KD 8.1 million, compared to an operating income of KD 5.1 million for the year ended 31 December 2018. This change was primarily attributable to movements in the pricing of fund transfers.

***Geographic segments***

The Group’s geographic segments comprise Middle East and North Africa, North America, Europe and Asia.

For the year ended 31 December 2020, 99.7 per cent. of the Group’s income was attributable to Middle East and North Africa (compared to 96.9 for the year ended 31 December 2019 and 96.4 per cent. for the year ended 31 December 2018).

## LIQUIDITY AND FUNDING

### Overview

The Group's liquidity needs arise primarily from making Islamic financing available to customers, the payment of expenses and investments in securities. To date, the Group's liquidity needs have been funded principally through deposits, medium term financing and operating cash flow, including profit received on its customer financing portfolio and its portfolio of investment securities.

### Liquidity

The table below summarises the Group's statement of cash flows for the years indicated.

| | Year ended 31 December | | |
|---|---|---|---|
| | **2020** | **2019** | **2018** |
| | | *(KD '000)* | |
| Net cash (used in)/generated from operating activities .... | (7,564) | 327,637 | 174,273 |
| Net cash used in investing activities................................ | (194,104) | (90,754) | (120,017) |
| Net cash generated from/(used in) financing activities .... | 273,526 | 107,487 | (20,867) |
| **Net increase in cash and cash equivalents** ................... | 71,858 | 344,370 | 33,389 |
| Cash and cash equivalents at the beginning of the year ... | 509,737 | 164,767 | 131,378 |
| **Net foreign exchange differences**.................................. | 5,605 | 600 | — |
| **Cash and cash equivalents at the end of the year** ........ | 587,200 | 509,737 | 164,767 |

The Group's net cash used in operating activities for the year ended 31 December 2020 was KD 7.6 million, compared to KD 327.6 million net cash generated from operating activities for the year ended 31 December 2019, representing a decrease of KD 335.2 million or 102.3 per cent. In 2020, the Group's net cash generated from operating activities principally reflected its profit for the year adjusted for, amongst other things, provision for impairment, depreciation and changes in operating assets and liabilities including, amongst other things, deposits with the CBK and other banks, and Islamic financing to customers.

In 2019, the Group's net cash generated from operating activities principally reflected its profit for the year adjusted for, amongst other things, provision for impairment, depreciation and foreign currency translation adjustments and changes in operating assets and liabilities including, amongst other things, depositors' accounts, due to banks, and Islamic financing to customers.

The Group's net cash generated from operating activities for the year ended 31 December 2018 was KD 174.3 million which principally reflected the changes in operating assets and liabilities including, amongst other things, deposits with the CBK, higher deposits with other banks and due to banks.

The Group's net cash used in investing activities for the year ended 31 December 2020 was KD 194.1 million, compared to KD 90.8 million for the year ended 31 December 2019 and KD 120.0 million for the year ended 31 December 2018, representing an increase of KD 103.3 million or 113.9 per cent. between 2019 and 2020 and a decrease of KD 29.2 million or 24.4 per cent. between 2018 and 2019. In each year, the Group's principal investment activities were purchase and sale of available for sale investments, principally Sukuk, as well as purchase of investment properties and property and equipment.

The Group's net cash generated from financing activities for the year ended 31 December 2020 was KD 273.5 million, compared to 107.5 million for the year ended 31 December 2019, representing an increase of KD 166.0 million or 154.5 per cent. The Group's net cash used in financing activities for the year ended 31 December 2018 was KD 20.9 million. In each year, the Group's principal financing activity comprised payment of dividends and profit distribution on the Perpetual Tier 1 Sukuk (as defined below) other than in the year ended 31 December 2019 which also includes proceeds from the 2019 Rights Issue (as defined below), and the year ended 31 December 2020 which also includes proceeds and profit distribution in respect of the Programme (as defined below).

### Funding

The Group's principal sources of funding are its depositors' accounts and, to a lesser extent, interbank deposits. The Group also has access to a pool of unencumbered and liquid securities in the form of quoted sukuk and equity securities that it can access to meet liquidity needs, in addition to its cash balances and placements with the CBK and other banks.

The Group's depositors' accounts constituted KD 5.1 billion, or 87.9 per cent. of total liabilities as at 31 December 2020, compared to KD 4.3 billion, or 93.5 per cent. of total liabilities, as at 31 December 2019 and KD 3.7 billion, or 96.4 per cent. of total liabilities, as at 31 December 2018. In the three years ending 31 December 2020, between 14.3 to 28.0 per cent. of the Group's depositors' accounts comprised deposits from the Government and its related agencies (see also "*Risk Factors – Risks Relating to the Bank and its Ability to Fulfil its Obligations under the Transaction Documents – The Group's Islamic financing portfolio, investment securities portfolio and deposit base are concentrated in Kuwait, the MENA region and the UK*" and "*Risk Factors – Risks Relating to the Bank and its Ability to Fulfil its Obligations under the Transaction Documents – The Group has significant customer and sector concentrations*").

In addition, in 2016, the Bank issued tier 1 sukuk in an aggregate face amount of U.S.$250.0 million (the "**Perpetual Tier 1 Sukuk**"). The existing Perpetual Tier 1 Sukuk was issued on the basis of no fixed maturity date and constitutes direct, unsecured, subordinated obligations (senior only to share capital) of the Bank. Subject to certain redemption conditions, the existing Perpetual Tier 1 Sukuk is callable by the Bank after a five-year period ending in May 2021 (the "**Perpetual Tier 1 Sukuk First Call Date**") or on any profit payment date thereafter. The existing Perpetual Tier 1 Sukuk bears an expected profit rate of 6.75 per cent. per annum to be paid semi-annually in arrear until the existing Perpetual Tier 1 Sukuk First Call Date. After that, the expected profit rate will be reset based on then prevailing five-year U.S Mid Swap Rate plus an initial margin of 5.588 per cent. per annum.

In 2019, the Bank established a U.S.$1 billion trust certificate issuance programme (the "**Programme**") which provides for the issuance of Sukuk by way of private or public placements and in each case on a syndicated or non-syndicated basis. On 18 February 2020, the Bank issued U.S.$750 million fixed rate Sukuk at 2.593 per cent. due 2025 under the Programme.

The table below shows the Group's funding in the form of due to banks, depositors' accounts and other liabilities as at the dates indicated.

| | **As at 31 December** | | | | | |
|---|---|---|---|---|---|---|
| | **2020** | | **2019** | | **2018** | |
| | *(KD '000)* | *(% of total)* | *(KD '000)* | *(% of total)* | *(KD '000)* | *(% of total)* |
| Due to banks | 281,371 | 4.8 | 236,480 | 5.1 | 97,216 | 2.5 |
| Depositors' accounts | 5,107,728 | 87.9 | 4,347,226 | 93.5 | 3,720,935 | 96.4 |
| Medium term financing | 305,509 | 5.3 | — | — | — | — |

| | As at 31 December | | | | | |
|---|---|---|---|---|---|---|
| | 2020 | | 2019 | | 2018 | |
| | *(KD '000)* | *(% of total)* | *(KD '000)* | *(% of total)* | *(KD '000)* | *(% of total)* |
| Other liabilities | 115,811 | 2.0 | 63,661 | 1.4 | 40,667 | 1.1 |
| **Total liabilities** | 5,810,419 | 100.0 | 4,647,367 | 100.0 | 3,858,818 | 100.0 |

The Group's depositors' accounts comprise current and demand accounts, savings accounts and time deposits.

The Group's current and demand accounts are mostly non-profit bearing and amounts may be withdrawn from these accounts at any time without notice. The Group's savings accounts are *Shari'a*-compliant accounts subject to the principles of mudaraba and amounts may also be withdrawn from these accounts at any time without notice.

The Group believes that its current and demand accounts and savings accounts are diversified and stable in nature, and constitute a stable and secure source of low cost funding. The Group's current and demand accounts and savings accounts form a significant proportion of its total depositors' accounts.

The Group accepts time deposits for a range of periods up to five years.

### *Maturity profile*

The table below shows the maturity profile of the Group's total liabilities and equity as at the dates indicated. This analysis is based on contractual cash flows, maturity dates or on management's estimate of liquidation.

| | Up to 3 months | 3 to 6 months | 6 months to 1 year | Over 1 year | Total |
|---|---|---|---|---|---|
| | | | *(KD '000)* | | |
| **As at 31 December 2020** | | | | | |
| 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 |
| **As at 31 December 2019** | | | | | |
| 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 |
| **As at 31 December 2018** | | | | | |
| 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 |

| | Up to 3 months | 3 to 6 months | 6 months to 1 year | Over 1 year | Total |
|---|---|---|---|---|---|
| | | | *(KD '000)* | | |
| **Total liabilities and equity**............................ | 2,318,612 | 418,497 | 823,184 | 784,485 | 4,344,778 |

A significant proportion of the Group's liabilities and equity disclosed in the tables above is short-term in nature. As at 31 December 2020, 63.8 per cent. of the Group's liabilities and equity matured within three months while 79.9 per cent. of the Group's liabilities and equity matured within a year.

The Group's deposit base is gradually reducing its concentration by depositor type, namely cash-rich Government and Government-related entities. Significant time deposits from large customers are, with the customers' agreement, divided into smaller deposits with varying maturities, thereby partly mitigating the risks associated with single party deposit concentration.

### *Equity funding*

For a discussion of the Group's share capital and reserves as at 31 December in each of 2020, 2019 and 2018, see Note 22 (*Share capital*) to Note 27 (*Other reserves*) (inclusive) to the 2020 Financial Statements and Note 20 (*Share capital*) to Note 25 (*Other reserves*) (inclusive) to the 2019 Financial Statements.

## FINANCING

As at 31 December 2020, the Group's total Islamic financing portfolio (net of provisions) was KD 4.8 billion, compared to KD 3.8 billion as at 31 December 2019 and KD 3.3 billion as at 31 December 2018.

The table below shows the Group's Islamic financing portfolio, provisions and financing to deposit ratios as at the dates indicated.

| | As at 31 December | | |
|---|---|---|---|
| | 2020 | 2019 | 2018 |
| | *(KD '000, unless ratio)* | | |
| Total Islamic financing to customers[(1)]............................ | 4,950,429 | 3,892,694 | 3,330,772 |
| Less: provision for impairment ....................................... | (127,163) | (66,621) | (68,487) |
| **Islamic financing to customers** ..................................... | 4,823,266 | 3,826,073 | 3,262,285 |
| Islamic financing to customers to depositors' account and due to banks ratio[(2)]................................................... | 90% | 83% | 85% |
| Islamic financing to customers to depositors' account ratio[(2)] ............................................................................... | 94% | 88% | 88% |

Notes:

(1) Comprises total Islamic financing to customers without adjusting for provision for impairment.

(2) For a further description of these ratios (including calculation methodology), see "*Presentation of Certain Financial and Other Information – Presentation of Financial Information – Presentation of Alternative Performance Measures*".

The Group's Islamic financing portfolio is principally denominated in Kuwaiti dinar, although Islamic financing to customers is also provided in U.S. dollars, pounds sterling and euro, among other currencies. The Group believes that there is only limited structural cross-currency exposure as the majority of its assets and liabilities are match-funded in currency terms.

### Distribution of Islamic financing to customers by maturity

The table below shows the maturity profile of the Group's Islamic financing to customers as at the dates indicated. This analysis is based on contractual cash flows, maturity dates or on management's estimate of liquidation.

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | **Up to 3 months** | **3 to 6 months** | **6 months to 1 year** | **Over 1 year** | **Total** |
| | | | *(KD '000)* | | |
| 2020 | 1,701,849 | 388,644 | 403,224 | 2,329,549 | 4,823,266 |
| 2019 | 1,100,860 | 826,597 | 241,104 | 1,657,512 | 3,826,073 |
| 2018 | 1,217,734 | 291,434 | 217,168 | 1,535,949 | 3,262,285 |

### Distribution of Islamic financing to customers by geographical region and customer segment

The table below shows the geographic region and customer segment distribution of the Group's Islamic financing to customers as at the dates indicated.

| | **Kuwait and Middle East** | **North America, Asia and Africa** | **Europe and UK** | **Total** |
|---|---|---|---|---|
| | | *(KD '000)* | | |
| **As at 31 December 2020** | | | | |
| Corporate banking | 2,535,367 | 14,755 | 515,376 | 3,065,498 |
| Consumer banking | 1,884,931 | — | — | 1,884,931 |
| **Total Islamic financing to customers** | 4,420,298 | 14,755 | 515,376 | 4,950,429 |
| Less: provision for impairment | (114,773) | (148) | (12,242) | (127,163) |
| **Islamic financing to customers** | 4,305,525 | 14,607 | 503,134 | 4,823,266 |
| **As at 31 December 2019** | | | | |
| Corporate banking | 2,234,876 | 7,654 | — | 2,242,530 |
| Consumer banking | 1,650,164 | — | — | 1,650,164 |
| **Total Islamic financing to customers** | 3,885,040 | 7,654 | — | 3,892,694 |
| Less: provision for impairment | (66,544) | (77) | — | (66,621) |
| **Islamic financing to customers** | 3,818,496 | 7,577 | — | 3,826,073 |
| **As at 31 December 2018** | | | | |
| Corporate banking | 1,838,474 | 728 | — | 1,839,202 |
| Consumer banking | 1,491,570 | — | — | 1,491,570 |
| **Total Islamic financing to customers** | 3,330,044 | 728 | — | 3,330,772 |

| | Kuwait and Middle East | North America, Asia and Africa | Europe and UK | Total |
|---|---|---|---|---|
| | | *(KD '000)* | | |
| Less: provision for impairment | (67,972) | (515) | — | (68,487) |
| **Islamic financing to customers** | 3,262,072 | 213 | — | 3,262,285 |

### Distribution of the Group's maximum exposure to credit risk by industry sector

The Group does not disclose the sectoral split of its Islamic financing to customers in the Financial Statements, although it does disclose the sectoral split of its financial assets before taking into account any collateral held or credit enhancements. The table below shows the industry sector distribution of the Group's financial assets before taking into account any collateral held or credit enhancements as at the dates indicated.

| | As at 31 December | | |
|---|---|---|---|
| | **2020** | **2019** | **2018** |
| | | *(KD '000)* | |
| Trading | 137,307 | 113,502 | 115,257 |
| Manufacturing | 203,742 | 210,831 | 166,755 |
| Banking and other financial institutions | 872,083 | 699,339 | 519,717 |
| Construction | 237,475 | 66,439 | 62,856 |
| Real estate | 1,369,592 | 1,011,541 | 899,883 |
| Retail | 1,782,704 | 1,565,183 | 1,423,554 |
| Government | 717,669 | 615,021 | 397,644 |
| Others | 829,321 | 706,318 | 532,610 |
| **Total** | 6,149,893 | 4,988,174 | 4,118,276 |

As at 31 December 2020, the retail sector accounted for 29.0 per cent. of the Group's financial assets before taking into account any collateral held or credit enhancements (compared to 31.4 per cent. as at 31 December 2019 and 34.6 per cent. as at 31 December 2018) while the construction and real estate sectors together accounted for 26.1 per cent. of the Group's financial assets before taking into account any collateral held or credit enhancements (compared to 21.6 per cent. as at 31 December 2019 and 23.4 per cent. as at 31 December 2018).

## INVESTMENT SECURITIES PORTFOLIO

The Group's investment securities portfolio comprises a portfolio of Sukuk, investment in equity securities and funds. The Group invests in such securities to generate returns and to provide an additional source of liquidity when required.

The table below summarises the Group's investment securities portfolio as at the dates indicated.

| | As at 31 December | | |
|---|---|---|---|
| | 2020 | 2019 | 2018 |
| | | *(KD '000)* | |
| Investment in sukuk | 523,046 | 306,315 | 309,339 |
| Investment in sukuk – FVOCI[1] | 504,218 | 306,315 | 309,339 |
| Investment in sukuk – FVTPL[2] | 18,828 | — | — |
| Financial assets at fair value through profit or loss | 81,691 | 80,440 | 42,760 |
| Investment in unquoted equity funds | 81,691 | 80,440 | 42,760 |
| Financial assets at fair value through other comprehensive income | 17,418 | 20,775 | 30,740 |
| Investment in unquoted equity securities | 17,275 | 20,624 | 30,574 |
| Investment in quoted equity securities | 143 | 151 | 166 |
| **Total** | 622,155 | 407,530 | 382,839 |

Notes:

(1) "**FVOCI**" means fair value through other comprehensive income.

(2) "**FVTPL**" means fair value through profit or loss.

The Group's investment policy requires all investments in securities to have an investment grade rating as determined by rating agencies, except for sovereign securities.

## CAPITAL ADEQUACY

Capital adequacy, financial leverage and the use of various levels of regulatory capital are monitored regularly by the Group's management and are also governed by guidelines of the Basel Committee as adopted by the CBK.

In June 2014, the CBK issued directives on the adoption of capital adequacy standards under the Basel III framework applicable to licensed banks in Kuwait, effectively replacing and superseding the earlier Basel II requirements. The Basel III reforms strengthen the quality of capital and introduce several buffer requirements in line with proposals made by the Basel Committee. The CBK Basel III framework consists of three Pillars:

- Pillar 1 provides a framework for measuring capital requirements for credit, operational and market risks under the "Standardised Approach";
- Pillar 2 relates to the supervisory review process and emphasises the importance of the Internal Capital Adequacy Assessment Process ("**ICAAP**") performed by banks; and

- Pillar 3 aims to complement the above capital adequacy requirements under Pillar 1 and Pillar 2 by requiring banks to provide a consistent and understandable disclosure framework which facilitates comparison, thus enhancing the safety and soundness of the banking industry in Kuwait.

The Basel III framework raises both the quality and quantity of the capital base and increases capital requirements for certain positions. The minimum requirements for capital are underpinned by a leverage ratio that serves as a backstop to the risk-based capital measures. There are also buffer requirements in the form of a capital conservation buffer, a countercyclical capital buffer and an additional surcharge for banks designated as domestic systemically important.

The primary objectives of the Group in respect of capital management are to ensure that the Group complies with externally imposed capital requirements and that it maintains strong and healthy capital ratios in order to support its business and to maximise shareholders' value. The Group aims to ensure adherence to the CBK's requirements by monitoring its capital adequacy and adopting both a capital forecasting process that ensures that proactive action is taken where necessary and a strategy that ensures that a sufficient capital buffer above minimum required levels is maintained at all times. This process is supported by the use of proprietary capital-planning methodology which takes into consideration regulatory capital requirements, rating agency views, stress testing and bottom-up views of business plans.

The table below shows the composition of the Group's regulatory capital and its capital ratios as at the dates indicated.

| | As at 31 December | | |
|---|---|---|---|
| | **2020** | **2019** | **2018** |
| | *(KD '000, unless %)* | | |
| Risk weighted assets | 4,083,632 | 3,246,032 | 2,704,257 |
| **Capital required** | 551,290 | 421,984 | 365,075 |
| **Capital available** | | | |
| Common Equity Tier 1 Capital | 558,460 | 546,790 | 385,348 |
| Additional Tier 1 Capital | 78,015 | 75,616 | 75,658 |
| Tier 1 Capital | 636,475 | 622,406 | 461,006 |
| Tier 2 Capital | 51,864 | 37,288 | 30,871 |
| **Total Capital** | 688,339 | 659,694 | 491,877 |
| **Common Equity Tier 1 Capital Adequacy Ratio** | 13.68% | 16.84% | 14.25% |
| **Tier 1 Capital Adequacy Ratio** | 15.59% | 19.17% | 17.05% |
| **Total Capital Adequacy Ratio** | 16.86% | 20.32% | 18.19% |

The Group is also subject to a CBK Basel III leverage ratio requirement of 3.0 per cent. The Group's leverage ratio was 9.37 per cent. as at 31 December 2020 and 11.16 as at 31 December 2019 and 10.01 per cent. as at 31 December 2018.

## CAPITAL EXPENDITURE AND OTHER COMMITMENTS

The Group does not have any material ongoing capital expenditure or, save as disclosed under "*Financial Review – Contingent Liabilities*", other commitments.

## CONTINGENT LIABILITIES

The Group has contingent liabilities in respect of funding commitments it has made as well as in relation to acceptances, letters of credit and guarantees issued by it. The table below shows these contingent liabilities as at the dates indicated.

| | As at 31 December | | |
|---|---|---|---|
| | **2020** | **2019** | **2018** |
| | | *(KD '000)* | |
| Guarantees | 287,185 | 271,839 | 264,940 |
| Acceptances and letters of credit | 104,549 | 90,184 | 91,632 |
| Other commitments | 119,206 | 95,121 | 9,278 |
| **Total** | 510,940 | 457,144 | 365,850 |

## RELATED PARTY TRANSACTIONS

The Group's principal related party transactions are with the Bank's major shareholders, the members of the Board, entities controlled by such shareholders or members of the Board or under their joint control, key management personnel and their close family members as well as with the NBK Group and its board members, key management personnel, branches, associates and subsidiaries. IFRS requires the disclosure of shareholder related parties only in cases where those related parties exercise significant influence. Certain related parties are customers of the Group in the ordinary course of business. Transactions with related parties are made on substantially the same terms, including collateral, as those prevailing at the same time for comparable transactions with unrelated parties and do not involve an amount of risk that is higher than the amount of risk taken in comparable transactions with unrelated parties. Financings to directors and their related parties are secured by tangible collateral in accordance with CBK regulations.

The Group adheres to CBK guidelines on extending financing to related parties. Credit facilities to members of the Board can only be approved under conditions specified by the CBK which include the following:

- all facilities to members of the Board must be approved, renewed or modified only at the Board level and this authority cannot be delegated to a committee or other body;
- the approval, renewal or modification of Board members' facilities can only be considered approved when at least three-quarters of the Board members have approved the same; and
- the Bank must acquire adequate collateral.

Credit extensions to related parties are also subject to adherence to the overall CBK limits which include that the total related party exposures should not exceed 50 per cent. of a bank's capital.

Further information on the Group's related party transactions is set out in Note 29 (*Related party transactions*) to the 2020 Financial Statements.

# DESCRIPTION OF THE GROUP

## OVERVIEW

The Bank, which along with its subsidiaries is referred to as the "**Group**" and which is the ultimate holding company within the Group, was established by the Kuwait Investment Authority ("**KIA**") in 2004 as an Islamic bank to operate in accordance with Islamic *Shari'a* law and to apply Islamic principles in relation to client and investor transactions in Kuwait and was the first Islamic bank in Kuwait to be established under Law No. 30/2003 (concerning Islamic Banks). As at 30 September 2020, the Group was the second largest Islamic banking group in Kuwait in terms of total assets, customer deposits and Islamic financings to customers and has substantial market shares in the consumer and corporate segments across various products and services including murabaha and ijara financing and credit card usage among other services.

The Group's core businesses are consumer banking, corporate banking and investment management. The Group is primarily focused on offering its products and services in Kuwait and has a presence outside Kuwait through its ownership of shareholdings in an entity in the UK.

The Group offers its clients a wide range of banking and financial services through one of the fastest growing branch networks in Kuwait, as at 31 December 2020, comprising 42 branches, 288 automated teller machines ("**ATMs**"), a network of point of sale ("**POS**") terminals as well as telebanking, internet banking and mobile banking services.

As at 31 December 2020, the Group's total assets were KD 6.4 billion, compared to KD 5.3 billion as at 31 December 2019 and its equity attributable to shareholders of the Group was KD 517.9 million as at 31 December 2020, compared to KD 575.4 million as at 31 December 2019. As at 31 December 2020, the Group's Islamic financing to customers was KD 4.8 billion, compared to KD 3.8 billion as at 31 December 2019 and its aggregate depositors' accounts were KD 5.1 billion, compared to KD 4.3 billion as at 31 December 2019. In the year ended 31 December 2020, the Group's net profit was KD 33.5 million, compared to KD 62.7 million for the year ended 31 December 2019. The Group's profit attributable to shareholders for the year ended 31 December 2020 was KD 34.4 million, compared to KD 62.6 million for the year ended 31 December 2019.

As at 31 December 2020, the Group's total and tier 1 capital adequacy ratios, calculated in accordance with the Basel III methodology adopted by the CBK, were 16.9 per cent. and 15.6 per cent., respectively, and its leverage ratio, calculated in accordance with CBK requirements, was 9.4 per cent.

The Bank has been listed on the Boursa Kuwait, formerly the Kuwait Stock Exchange, since 15 May 2006. Its total market capitalisation as at 31 December 2020 was KD 1.7 billion.

The Bank's registered office is at Al-Hamad Towers, P.O. Box 25507, Safat 13116, Kuwait and its telephone number is +965 2232 5000. Its commercial registration number with the Kuwaiti Ministry of Commerce is 104042.

## HISTORY

The Bank was incorporated in Kuwait with a share capital of KD 100.0 million by an Emiri decree on 21 September 2004 (Emiri Decree No. 88 of 2004 permitting the foundation of Boubyan Bank) by the KIA and the Public Institution for Social Security, which owned 20 per cent. and 4 per cent. of the Bank, respectively. The Bank is regulated by the CBK, which issued its licence on 28 November 2004. The KIA subsequently sold its stake in the Bank via an auction in the year 2009.

Having first acquired a minority shareholding in the Bank in 2009 as a bidder for the KIA shares, the National Bank of Kuwait group (the "**NBK Group**") held 47.3 per cent. of the Bank's shares at the end of 2010. In 2012, the NBK Group increased its shareholding in the Bank to a majority stake of 58.3 per cent. As a result, the Bank has been consolidated as a subsidiary of the NBK Group for accounting purposes since 31 July 2012. As at the date of this Prospectus, the NBK Group holds 59.9 per cent. of the Bank's shares. The NBK Group acquired its shareholding in the Bank in order to enter into the Islamic banking sector. Consequently, the NBK Group was able to enhance the Bank's position in the local market and develop its various Islamic banking services, as well as implement major strategic initiatives, providing the NBK Group with a gateway into the Islamic banking market. To ensure the continued stability of the Bank, in 2009 the Bank appointed a leading international consulting firm to implement a new strategy. The strategy was completed through successful, focused initiatives, including the development of a strong retail banking offering and the improvement of sales effectiveness (see "*Strategy*" below). The Group is an Islamic banking group, with estimated market shares of total banking sector assets and depositors' accounts in Kuwait of 7.4 per cent. and 9.6 per cent., respectively, as at 30 September 2020.

Having first acquired approximately 20 per cent. of the Bank in 2006, the Investment Dar ("**TID**") sold its stake in the Bank to the Commercial Bank of Kuwait ("**CBOK**") (see "*Capital Structure and Shareholders*" below).

In 2010, the Bank completed a rights issue of 583,000 ordinary shares, in which it raised KD 145.0 million ("**2010 Rights Issue**"), and which was approved by an extraordinary general meeting of the Bank held on 1 October 2009. Shareholders were offered one share for every two shares held at an offer price of KD 0.250 per share comprising a nominal value of KD 0.100 per share and a premium of KD 0.150 per share. The 2010 Rights Issue was fully subscribed resulting in an increase in share capital of KD 58.0 million and a share premium of KD 87.0 million. The purpose of the 2010 Rights Issue was to increase the equity base of the Bank in order to support the continued growth of the Bank's assets.

Further, in 2019, the Bank completed another rights issue of 376,184,277 ordinary shares, in which it raised KD 131.6 million ("**2019 Rights Issue**"), and which was approved by an extraordinary general meeting of the Bank held on 17 March 2019. Shareholders were offered 15 per cent. shares of the total issued share capital at an offer price of KD 0.350 per share, comprising a nominal value of KD 0.100 per share and a premium of KD 0.250 per share. The 2019 Rights Issue was fully subscribed resulting in an increase in share capital of KD 37.6 million and a share premium of KD 94.0 million. The 2019 Rights Issue concluded on 5 May 2019 and the market price of the Bank's shares at the time of the 2019 Rights Issue was KD 0.630 per share. The purpose of the 2019 Rights Issue was to increase the equity base of the Bank in order to support the continued growth of the Bank's assets.

The Bank's shares were first listed on Boursa Kuwait, formerly the Kuwait Stock Exchange, on 15 May 2006 and, as at 31 December 2020, two shareholders had holdings in excess of 5 per cent. of the Bank's share capital (see "*Capital Structure and Shareholders*" below).

## STRATEGY

Following the increase in the NBK Group's stake in the Bank in 2012, the Group underwent three phases of strategic planning to positively transform its business operations. The Group was successful in delivering the first phase of the strategy during the period from 2009 to 2014 ("**Phase 1**"), which developed the strategic direction and initiatives for the Group to build foundations for sustainable growth that would allow it to capture "quick-win" opportunities and address potential high risk areas. From 2014 to 2017, the Group implemented the second phase of the strategy ("**Phase 2**") in which it introduced retail and corporate offerings, expanded its branch footprint and enlarged its business and target focus segments whilst also developing and complementing product and channel innovation.

The Group's third and current phase of the strategy ("**Phase 3**") began in 2017 and is continuing in 2021 and builds on the Group's robust domestic foundations while strengthening its international presence. The objective of Phase 3 is to sustain growth by moving into "steady-state" growth building on the business platform established in Phase 1 and Phase 2 by (i) providing superior service in respect of both speed and quality, (ii) exploring new growth opportunities (mainly in the wealth management and digital businesses), and (iii) strengthening global presence.

The Group will continue to focus on increasing its market share by, for instance, the retail business intending to increase the Group's youth and affluent banking customers and the corporate business intending to focus on medium and large corporates.

### Building a leading Islamic finance franchise

The Group's long-term aspiration is to become one of the top Islamic banks in the world and to be a modern Islamic bank that offers innovative digital products and services to its customers as an alternative to conventional banking. As part of that aspiration, the Group has differentiated itself successfully from its competitors and will continue to do so by offering excellent customer service with a clear focus on youth, affluent and high net worth clients and medium and large corporate customers. During the period from 2020 to 2023, the Group expects to maintain its position in key targeted businesses by creating organic growth through enhanced value propositions, introducing innovative channels and developing new digital banking platforms. The Group will continue to focus its efforts primarily on its domestic business. The Group also aims to solidify its existing international presence which, as discussed further below, was evidenced earlier in 2020 by the Group's increase in shareholding of BLME.

The Group's short-term strategy is to: (i) continue innovating its product service offering to enhance customer experience; (ii) maximise operational efficiency; and (iii) become an emerging Islamic banking leader in Kuwait.

Based on the interim financial statements published by Kuwaiti banks:

- as at 30 September 2020, Islamic banks accounted for 44.8 per cent. of total Kuwaiti bank assets and 48.9 per cent. of total Kuwaiti bank deposits in Kuwait; and
- for the five years ended 30 September 2020, asset growth among Kuwaiti Islamic banks has averaged 7.7 per cent. compared to an increase in assets for Kuwaiti conventional banks of an average of 2.5 per cent.

The Group aims to expand its core domestic business by growing its market share across various segments and products within that business. The growth across products and segments is intended to occur simultaneously with a disciplined approach in managing both risk and costs. Within its core domestic product groups of corporate, consumer and investment management, the Group intends to implement the strategy as follows:

### Consumer banking

Within the consumer banking sector in Kuwait, the Group's objectives include:

- maintaining the Group's position as a leader in customer service and enhancing the customer experience;
- continuing to grow its market share as the bank of choice for affluent and private banking customers through improved digital initiatives;

- growing market shares across various products and customer age groups with targeted product offerings to focus segments;
- continuing to expand the Group's branch footprint to facilitate the acquisition of target customers; and
- innovating in respect of the Group's products and sales and delivery channels.

In relation to its consumer banking operations, the Group aims to further expand its market share through focusing on affluent and private banking customers and continues to work on positioning itself as the bank of choice for affluent customers and Kuwaiti nationals in particular. The Group will achieve this by enhancing the customer experience, focusing on innovation in product and services offerings and promoting its products through the use of campaigns. The Group is complementing its product and services offering through the introduction of market leading reward and loyalty programmes, developing segment specific products (such as private banking affluent accounts described below), differentiating affluent value proposition across products, services and customer experience, and introducing liability products with attractive features (such as drawdown flexibility). The Group aims to grow personal finance volumes and deposit volumes by acquiring salary transfers and increasing its volume of business with affluent and private banking customers. The Group is also building a comprehensive consumer banking platform in terms of distribution channels to achieve its consumer banking ambitions. Between the end of 2017 and 2020 the Group grew its branch network from 39 to 42 branches and added 71 new ATMs. Along with expanding its footprint and distribution network the Group's customer satisfaction ratings continue to be higher than the average for both Islamic and conventional Kuwaiti banks, all of which have contributed to its recent growth in profitability and its increased market share.

### Corporate banking

Within the corporate banking sector in Kuwait, the Group's objectives include:

- defending, and strategically expanding, its position and market share in large and mid-size corporate clients;
- offering innovative products and services to its clients; and
- delivering faster solutions and superior service through the improvement of its credit processes and systems.

In relation to its corporate operations, the Group aims to become the bank of choice for medium to large corporate clients while continuing to increase its market share in the large companies segment. The Group increased its corporate client base by 9.8 per cent. over the past three years in diversified sectors with a sectorial focus on trade services, real estate, contracting and structured finance. For example, the Group increased the number of customers which are in the trade service sector by 14.7 per cent. in the period from 2017 to 2020.

In relation to large corporates, the Group's focus is to encourage proactive client acquisition, increase its volume of business from existing clients by focusing on ancillary business, offering tailored products and terms to its customers and improving the delivery of services to its clients by providing them with accessible and competent corporate finance bankers.

In relation to medium companies, the Group intends to increase the generation of leads to increase its client database through a targeted pipeline of potential customers, simplify credit processes in order to enhance the speed of delivery of services and products to its customers and customise its coverage model, involving the use of relationship managers to provide quick and innovative financial solutions, while continuing to manage credit risk in a focused manner. The Group aims to improve its offering in the corporate segment through innovation in products and services, which would enable it to provide its clients with a wider variety of financing solutions. In particular, it has introduced new products such as a *Shari'a*-compliant overdraft structure and *istisna*, and additional products are being developed. Furthermore, the Group continues to work on strengthening and improving its processes. For example, the Group has considered introducing automated credit approvals to reduce approval times and introduced new staff training and development programmes, new leadership programmes and a comprehensive performance management framework.

### Solidifying existing international presence

The Group's strategy of strengthening its existing international presence includes boosting the performance of BLME Holdings Plc ("**BLME**"). BLME's principal activity is to act as a holding company for Bank of London and the Middle East plc and its subsidiaries. Bank of London and the Middle East plc is an independent wholesale bank engaged in investment, commercial finance, private client banking and wealth management. Following the increase of the Bank's shareholding in BLME in 2020, the Group aims to develop Bank of London and the Middle East plc into the UK's leading provider of *Shari'a* compliant wealth management solutions for GCC nationals who have interests in the UK.

#### *Monitoring selected growth opportunities*

The Group's long-term geographic diversification strategy involves expanding its regional presence in the GCC, and strengthening its Islamic banking franchise in the MENA region and elsewhere. In the short- to medium-term, the Group's strategy is to focus on increasing and improving its position in its domestic market while also strengthening its international presence.

#### *Private Banking and Wealth Management*

Within the private banking and wealth management sectors in Kuwait, the Group's objectives include:

- scaling up the Group's private banking and wealth management operating model;
- expanding the products offered to customers in conjunction with Boubyan Capital Investment Company K.S.C. (Closed) ("**Boubyan Capital**");
- continuing to develop acquisition, marketing and relationship capabilities;
- growing the Group's market share in these sectors; and
- creating distinctive Islamic wealth management opportunities for customers.

### Impact of COVID-19

See "*Risk Management – Response to COVID-19*" for details on the Group's strategy in managing the effects of the COVID-19 pandemic.

## STRENGTHS

The Group benefits from a number of business strengths. In particular:

### Leading Islamic banking group in Kuwait with a growing market position and strong growth record

Since 2017, the Group has increased its domestic market share of Islamic banking business in Kuwait across several segments. As at 31 December 2020, the Group had total assets of KD 6.4 billion, total Islamic financing to customers of KD 4.8 billion and total depositors' accounts of KD 5.1 billion, compared to total assets of KD 5.3 billion, total Islamic financing to customers of KD 3.8 billion and total depositors' accounts of KD 4.3 billion as at 31 December 2019. Over the period from 2015 to 2020, the Group increased its financing portfolio at three times the rate of the market and increased its deposits at three times the rate of the market. It also has one of the fastest growing and one of the most diversified distribution networks within Kuwait. The Group's distribution network is described under "*Reporting segments — Consumer banking reporting segment— Distribution channels*". The Group increased its market share in personal finance from 7.0 per cent. in 2013 to 14.3 per cent. in 2020. Furthermore, the Group maintains a 9.4 per cent. and 9.6 per cent. market share in financings and deposits, respectively, as at 30 September 2020.

### Sound and consistent financial performance

The Group has a history of profitability and remained profitable, growing its total assets at 3.2 times the rate of the market between 31 December 2015 and 30 September 2020. Between 31 December 2015 and 31 December 2020, the Group's operating profit (being its operating profit before provisions for credit losses and impairment losses) grew at a compound annual growth rate ("**CAGR**") of 12.3 per cent., its total assets grew at a CAGR of 15.5 per cent. and equity attributable to shareholders of the Group grew at a CAGR of 10.3 per cent. In addition, the Group benefits from low cost funding due to its strong liquidity position, institutional relationships and branch network and believes that its asset quality is strong, as evidenced by its relatively low impaired Islamic financing ratio, amounting to 0.8 per cent. as at 31 December 2019 compared to an average of 1.5 per cent. for Kuwaiti banks over the same period. As at 31 December 2020, the Group's impaired Islamic financing ratio increased marginally to 1.1 per cent., however this was due to lockdown measures imposed in response to the COVID-19 pandemic which forced some businesses to suspend their operations and thereby delay their financing repayments. Despite this marginal increase, the Group maintains one of the lowest impaired Islamic financing ratios when compared to other Kuwaiti banks whose financial statements for the year ended 31 December 2020 have been made publicly available as at the date of this Prospectus.

As at 31 December 2020, the Group's liquid assets ratio was 22.2 per cent. (compared to 24.1 per cent. and 21.8 per cent. as at 31 December 2019 and 31 December 2018 respectively). Since the NBK Group's acquisition of a minority shareholding in 2009 and their subsequent further acquisition of a majority shareholding in 2012, the Group has maintained a conservative financial profile and had KD 75.3 million Tier 1 Sukuk and KD 305.5 million medium term financing outstanding for the year ended 31 December 2020 and only the aforementioned Tier 1 Sukuk outstanding for the years ended 31 December 2019 and 31 December 2018 respectively, (see "*Selected Financial Information*"). This has enabled the Group to generate cash flow that it has utilised to maintain its strategy. The Group will focus on improving its position in its domestic market while strengthening its existing international presence.

The Group's net cash used in operating activities was KD 7.6 million for the year ended 31 December 2020 and the Group's net cash generated from operating activities was KD 327.6 million and KD 174.3 million for the year ended 31 December 2019 and 31 December 2018, respectively. The Group had KD 587.2 million, KD 509.7 million and KD 164.8 million in cash and cash equivalents as at 31 December 2020, 31 December 2019 and 31 December 2018, respectively.

### Increasingly diversified customer base

Since 2009, the Group has had an increasingly diversified customer base. As at 31 December 2020, the Group's consumer banking customers represented 54.7 per cent. of its depositors' accounts compared to 53.8 per cent. and 53.3 per cent. as at 31 December 2019 and 31 December 2018, respectively. As at 31 December 2020, the Group's corporate banking customers represented 22.5 per cent. of its total depositors' accounts compared to 8.4 per cent. and 6.1 per cent. of its total depositors' accounts as at 31 December 2019 and 31 December 2018, respectively. The Group's top 10 largest depositors constituted approximately 29.1 per cent. of the Group's total funding from deposits as at 31 December 2020. In addition, as discussed under "*Strategy — Building a leading Islamic finance franchise*", the Group is focusing on high net worth and affluent clients and large and medium to large corporate customers, thereby leveraging many of the Group's core strengths as well as focusing on high-quality growth. By focusing on high net worth and affluent clients and large and medium to large corporate customers, the Group's customer base has changed and diversified, resulting in a higher concentration of these clients and greater diversification within the Group's customer base. For the period from 2017 to 2020 the concentration of the Group's affluent customers (which included platinum customers (consisting of customers with salaries above KD 2,000 per month or a total balance of KD 30,000 or more) in any Group fixed deposit or investment fund) increased by 12 per cent.

### A strong domestic network

The Group has one of the fastest growing branch networks in Kuwait and has successfully adapted its branch network to cater for the specific needs of its various customer segments in an efficient and timely manner. Within the MENA region, the Group operates 42 branches in Kuwait, whilst, in support of its domestic network, the Bank has a subsidiary in the UK (see also "*Subsidiaries and Associates*" and "*Reporting segments — Consumer banking reporting segment — Distribution channels*" for a description of the Group's distribution network). The Group has also achieved one of the highest levels of retail customer satisfaction among Kuwaiti banks (see "*Reporting Segments — Consumer banking reporting segment*") and believes that its current, demand and savings accounts are diversified and stable in nature, and constitute a stable and secure source of low cost funding.

In Kuwait, the Bank's subsidiaries are Boubyan Takaful Insurance Company K.S.C. (Closed) ("**Boubyan Takaful**") and Boubyan Capital in which the Bank has a 79.49 per cent. and a 99.95 per cent. shareholding, respectively, as at 31 December 2020 (see "*Subsidiaries*"). Boubyan Takaful provides takaful insurance products for retail and institutional clients across various sub-sectors such as auto, healthcare and life insurance. Boubyan Capital is the investment management arm of the Bank and provides asset management and brokerage services to the Group's clients in addition to managing the Group's investments around the world.

### Stable shareholder base and strong management team

The Bank believes that it has a strong and stable Board of Directors and a long-serving executive team with a strong track record in Kuwait. Further details of the Bank's management are set out under "*Management and employees — Management*". The Bank also believes that it has a strong shareholder base, with the NBK Group owning approximately 59.9 per cent. of its shares as at 31 December 2020, see "*Capital Structure and Shareholders*".

### High investment grade credit ratings and among the top brand values regionally

The Bank has one of the highest credit ratings in the MENA region and internationally, with a stable outlook long-term deposit rating of "A3" from Moody's, which was affirmed on 16 December 2020, a long-term deposit rating of "A+" with a negative outlook from Fitch, which was affirmed on 11 February 2021, and a long-term issuer credit rating of A- with a stable outlook from Standard & Poor's, which was affirmed on 12 November 2020. In addition, the Boubyan brand is well recognised domestically. The Bank has been recognised by Global Finance and, in 2020, was named "Best Islamic Digital Bank — Global" for the sixth year in a row and was also recognised by The Banker in 2020 as "Best Islamic Bank of the Year" for Kuwait.

## CAPITAL STRUCTURE AND SHAREHOLDERS

As at 31 December 2020, the Bank's share capital comprised 3,028,283,433 authorised, issued and fully paid ordinary shares of 100 fils each in cash, and bonus shares, giving it a share capital of KD 302.8 million.

As at the date of this Prospectus, there is an ongoing dispute between the CBOK and TID over the ownership of a 9.7 per cent. holding in the Bank. However, management of the Bank does not believe that this dispute has any implications for the Bank's business.

The Bank believes that it benefits from a strong shareholder base, with the NBK Group still controlling the majority of its share capital. As at 31 December 2020, the following shareholders had holdings in excess of 5 per cent. of the Bank's share capital:

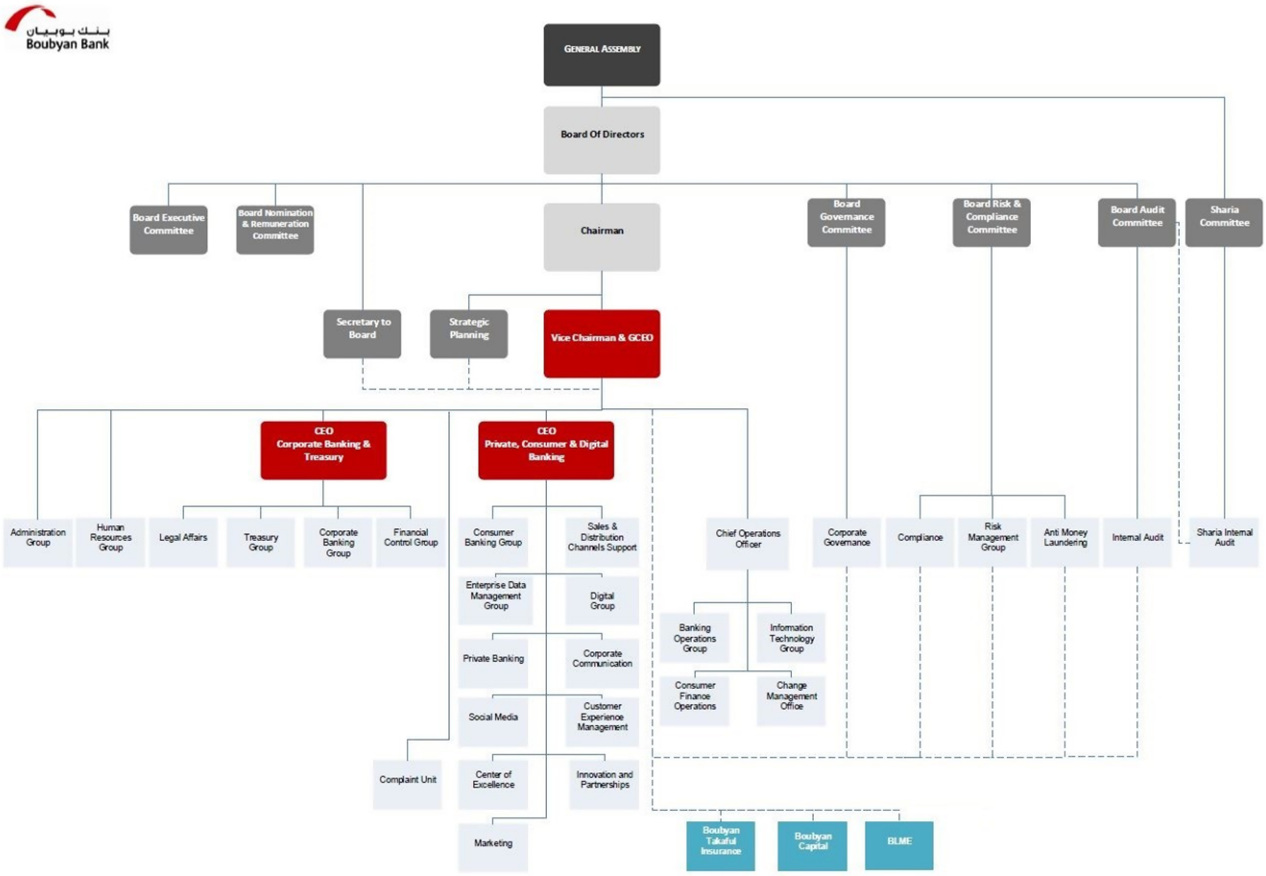
| | **Percentage of shares*** | **Number of ordinary shares** |
|---|---|---|
| | *(%)* | *(in million)* |
| **Shareholders** | | |
| National Bank of Kuwait S.A.K. and Group (NBK Banque Privée Suisse S.A. and NBK Kuwait Equity Fund)............................................................ | 59.9 | 1,813.4 |
| The Commercial Bank of Kuwait S.A.K.................................................... | 9.7 | 294.7 |

Note:

* Calculated as number of shares held divided by the paid-up share capital.

## ORGANISATIONAL STRUCTURE OF THE GROUP

The chart below illustrates the current organisational structure of the Group which was approved by the Board on 1 December 2020:




## REPORTING SEGMENTS

The Group currently operates through five segments for financial reporting purposes:

- consumer banking, which provides a diversified range of products and services to individuals and institutional customers, including consumer finance, credit cards, deposits and other branch-related services;
- corporate banking, which provides a comprehensive product and service offering to business and corporate customers, including murabaha, ijarah, trade service and other related services;
- investment banking and international operations, which oversees direct investments, investments in associates, local and international real estate investment, and asset and wealth management services;
- treasury, which provides local and international murabaha and other Islamic financing services to its clients, primarily banks, and is also responsible for the management of the Group's funding operations; and
- group centre, which provides other defined group activities and residual activities in respect of transfer pricing and inter-segment allocations.

The table below is derived from Note 31 (*Segment Reporting*) to the 2020 Financial Statements and shows certain financial information in relation to each reporting segment for each of 2020 and 2019.

| | Consumer banking | Corporate banking | Investment banking and international operations | Treasury | Group centre | Total |
|---|---|---|---|---|---|---|
| | | | (KD '000) | | | |
| **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 | 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/(loss) | 67,590 | 35,542 | (3,543) | 5,859 | 14,011 | 119,459 |
| Operating income/(loss) | 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 |

## Consumer banking reporting segment

The Group's consumer banking reporting segment constitutes: (i) consumer banking; and (ii) private banking.

### *Consumer banking*

The Group offers a wide range of consumer banking products and related services in Kuwait through its integrated distribution network, comprising branches, ATMs and other remote digital banking platforms. In addition, the Group provides the following services to customers:

- dedicated offices and relationship managers for affluent and platinum segment customers;
- a wide variety of products including a range of consumer financings (such as auto finance, health finance, education finance, boat and marine equipment finance and construction finance), deposits, debit and credit cards and investment management services; and
- a Central Sales division comprised of the Group's Auto and Direct Sales Force dedicated to providing products and services remotely.

The Group intends to increase its customer base (by developing segment-specific products and introducing liability products with attractive features such as drawdown flexibility) including the younger generation and mass affluent, as well as professional business owners. The Group has also introduced various unique services that enable customers to withdraw cash from the Group's ATMs using their civil ID without the need to use an ATM card, and has launched "near field communication" enabled credit cards and a new iWatch App for Apple Watch, which makes it easier for customers to review and manage their bank accounts. As at 31 December 2020, more than 96 per cent. of the Group's customers in Kuwait were Kuwaiti nationals.

In addition, the Group intends to focus on customer service in its consumer banking business as a key differentiator and intends to improve its service levels through improving the quality of its sales force and launching a relationship manager activity dashboard (see "*Strategy — Building a leading Islamic finance franchise*"). The Group semi-annually measures and monitors its overall customer satisfaction as well as customer satisfaction with specific products and services offered. The Group achieved one of the highest levels of customer satisfaction among Kuwaiti banks, amounting to 98 per cent. as at 31 December 2020, compared to an industry average of 91.4 per cent. as at 31 December 2020. The Group aims to maintain a 90+ customer satisfaction index score. The Group has implemented proactive customer reward and loyalty programmes and has increased its operational efficiency through the enhancement of its technology platform and by repositioning its alternative delivery channels as attractive, user-friendly and reliable alternatives to branch banking (see "*Distribution Channels*" below).

In contrast to other local Islamic banks which have historically focused on their Islamic brand identity, the Group has focused its consumer banking brand on its customer service and excellence. The Group's target market is young, affluent Kuwaitis and in order to increase its market share of such customers, the Group has sought to sponsor artisan coffee festivals and soccer tournaments in place of traditional sponsorships. In addition to this, the Group has developed a strong presence on university campuses and within high-end farmer's markets.

In order to continue attracting young, affluent Kuwaiti customers and differentiate itself from competitors, the Group has embarked on its "Digital Transformation" strategy to become a "Fintech-ready" organisation open to accepting application programming interfaces (APIs), and partnerships with potential start-ups and new market participants looking to innovate products and services. This is a key milestone in the Bank's digital journey allowing the Bank to focus on innovation and partnerships with Fintech organisations. As part of this strategy, the Bank has also established its Digital Innovation Centre allowing it to explore and adapt to the changing digital demands of its customers by providing innovative products and services. One of the Digital Innovation Centre's recent launches was the unveiling of its redeveloped and redesigned mobile app in 2019. By adopting an agile methodology the Bank has been able to deliver a number of "first in Kuwait" products for its customers including:

- the first digital, virtual credit card with near field communication (NFC) payment capabilities for Android phone users, providing a fully digital experience for customers from application to activation in less than one minute;
- the first digital end-to-end requests for credit cards, allowing customers to issue new credit cards via the mobile banking app and receive the physical credit cards through ATMs and interactive teller machines (ITMs) at a time of their convenience, removing the traditional restrictions of branch locations and operating hours;
- the first vertical metal credit card with contactless capabilities, issued for the Bank's 15$^{th}$ anniversary and representing the evolution in card design and functionality in Kuwait;
- the extension of Kuwait's first chatbot "Msa3ed", first launched in 2018, to the Whatsapp mobile application, allowing for quick customer enquiries and a call back feature linked to the Bank's main call centre; and
- the unveiling of "PRIME", the first youth specific mobile banking app in Kuwait, building loyalty with the youth demographic through digitisation of the Bank's services.

In addition to this, the Bank continues to invest in implementing robotic process automation (RPM) and business process management (BPM) technology to increase efficiency and develop "Fintech-ready" information systems and capabilities.

### *Private banking*

The Group has offered tailored products and services to its private banking clients since 2004. These services are customised to fit each client's risk tolerance and financial needs. The Group's private banking services include fixed-income and money market products and investment funds designed to preserve customers capital without restricting capital growth.

The Group aims to establish strong relationships with its personal banking clients based on professional expertise, integrity, confidentiality and trustworthiness. Within the private banking business, the Group intends to continue to grow at a consistent pace by focusing on key objectives including:

- new client acquisition — over the five years to 31 December 2020, the number of the Group's private banking clients has grown at a CAGR of 12 per cent., or 466 customers; and

- increasing its volume of business with existing clients — over the five years to 31 December 2020, the Group's assets under management have grown at a CAGR of 51.5 per cent.

### *Distribution channels*

The Group's principal distribution channels in Kuwait, for consumer banking and private banking, comprise:

- *Branch network:* The Group has one of the fastest growing branch networks in Kuwait, with 42 branches across the country (which include women-only sections), and a large ATM and customer deposit-machine network, with 288 ATMs. The Group has adapted its branch network based on customer segments and operates a 24/7 self-service automated facility at its major branches where customers can conduct a range of banking services, such as cash deposits and withdrawals, balance enquiries and statement printing, ordering of cheque books and internet and telebanking access. In addition, the Group operates a 24-hour service branch at Kuwait Airport.

- *Telebanking:* The Group introduced automated banking by telephone to its customers and opened its call centre in 2006. This call centre, which has been operated on a 24/7 basis since it was introduced, can be used by customers to conduct a variety of transactions, including reporting lost or stolen cards, performing account transfers and bill payments and making enquiries and complaints. The Group has recently extended this distribution channel to also serve as a telemarketing tool through which the Group sells products to customers directly or refers them to their channel of choice. In 2020, the Group's call centre handled approximately 1.8 million inbound and outbound calls.

- *Mobile banking:* Since 2010, the Group has introduced market-leading functionalities for mobile banking and ATMs and the Group's customers have been able to use mobile banking services that provide regular account updates and also SMS alerts to registered mobile phone users and through which they can conduct a large range of banking services, such as balance enquiries, bill payments, funds transfers, and statement and cheque book requests. Several new features, such as cardless withdrawals, instant deposits, and a unique fingerprint log-in feature have been introduced. The Group had approximately 278,488 registered mobile banking subscribers as at 31 December 2020 with approximately 19.2 million transactions executed in 2020.

- *Direct sales force:* The Group has one of the largest direct sales forces in Kuwait including sales staff at car dealerships and sales staff located at key government ministries and strategic corporate clients. It has recently expanded its direct sales forces to focus on attracting persons entering employment by offering competitive products and focusing on customer service.

- *Digital:* As part of its continuous investment in distribution channels and in an effort to maximise convenience and ease of access for customers by providing all core branch services to customers remotely, the Group has implemented its "Digital Transformation" strategy and continues to evaluate opportunities for the automation of services and fulfilment processes and the migration of "front-end" activity to digital channels.

- *Bespoke private banking services at select branches:* The Group offers comprehensive financial solutions and customised private banking services at the Group's private banking branch in Mubarakiya and at any of its other branches in Kuwait. The Group seeks to maintain a high level of service quality through extensive and diverse training programmes and careful recruitment of its private banking employees. The Group aims to establish long-term relationships with its private banking clients.

### *Products and services*

The Group offers its consumer banking and private banking customers a wide range of banking services, including:

- *Deposits:* The Group has a complete range of deposit products, including current, savings and time deposit accounts. In addition, it offers specific deposit products to encourage savings among retail customers. The Group also offers flexible deposits allowing customers to increase or to partially drawdown from an existing deposit. The Group's flexible deposit products are popular with the Group's affluent customers.

- *Financings and credit cards:* The Group's financing products include consumer and instalment financings with payment terms extending up to five years and 15 years, respectively. The Group also provides one of the widest premium ranges of Visa and MasterCard credit and debit cards in Kuwait. The Group's cards are aimed at different customer segments based on income and offer a range of benefits that vary based on the card type. Applications for financings and credit cards can be made through the Group's branch network, direct sales, telebanking or through the internet. Consistent with its credit risk management strategy, the Group prioritises attracting financing and credit card customers with good credit standing and salary transfers. Financing and credit card applicants are screened and credit limits are assessed according to the Group's credit policy based on demographic and financial factors and the past credit behaviour of the customer in question, while ensuring strict adherence to relevant CBK regulations.

  The Group uses local and international merchant relationships, promotions, a credit card reward programme and other incentives in order to increase card usage and expenditure levels and to increase customer loyalty and retention. The Group's credit card provides customers with access to airport lounges.

- *Other services:* The Group's principal deposit and financing products are complemented by a range of more general consumer banking services, including bill payments, remittances, foreign exchange, safe deposit boxes and share custody, electronic funds transfer and online trading. In addition, the Group's consumer banking customers have access to a suite of investment products which are managed by Boubyan Capital. See "*Investment banking reporting segment — Investments*" below.

## Corporate banking reporting segment

The Group offers its corporate clients a range of commercial banking products and services, including ijarah finance, murabaha financings, *Shari'a*-compliant overdraft structures, trade finance products (letters of credit and guarantees), supply chain finance (factoring), online corporate cash management services, and a range of current and deposit accounts. Additionally, the corporate banking reporting segment works with other business units within the Group, such as the Bank's treasury department and Boubyan Capital, to offer other services including foreign exchange, hedging products and corporate finance and advisory services.

The Group's corporate internet banking tool is known as "Corporate Online Banking". As at 31 December 2020, the Group had 490 active corporate online banking customers who generated approximately 11,000 transactions in 2020 for a total volume of approximately KD 9.8 million. The Group offers its clients products across services, and customer experience. The Group also receives cross-referrals from the NBK Group when opportunities arise.

The Group's corporate banking reporting segment comprises:

***The domestic corporate banking group***

The domestic corporate banking group caters to major Kuwaiti companies and operates on a sector focus basis. Accordingly, the domestic corporate banking group is organised around units of principally:

- large contracting, manufacturing (including in the food and drink, ship building, steel and metal fabrication, cement and clothing sectors), and oil and energy companies;
- large trading and services companies, including telecommunications, education, transport and logistics, healthcare and retail services;
- corporate real estate, development and construction (including building materials) companies;
- individual real estate investors; and
- structured financing companies, financial institutions and correspondent banking.

***The Trade Finance Department***

The Trade Finance Department uses its extensive knowledge of international trade to help corporate clients enhance their global competitiveness and reduce risk. The Trade Finance Department offers the Group's customers a wide range of services, including:

- letters of credit, including both inward and outward back-to-back, transferable, deferred payment, standby and revolving letters of credit;
- letters of guarantee, including bid bonds, performance, advance payment, retention, suppliers credit and contract guarantees;
- collections settled;
- financing under letters of credit; and
- Islamic trade financing for import payables.

**Investment banking and international operations reporting segment**

***Investment banking***

The Group's proprietary and fiduciary investment activities comprise the main activities of Boubyan Capital. Boubyan Capital offers high quality, tailored investment products and services to its clients, and focuses on three primary lines of business:

- principal investments, where it manages more than U.S.$68 million in private and public equity funds, seeking mid-market growth and proactive value-creation across a variety of industry sectors;
- direct real estate, where it manages more than U.S.$64 million in real estate assets; and
- asset management, where it has U.S.$1.6 billion in assets under management in regional and international funds across various asset classes and managed portfolios.

During the period from 2014 to 2020, Boubyan Capital launched various investment products, including:

- Boubyan KD Money Market Fund (II), which invests in deposits, short- and medium-term money markets instruments and sukuk;
- Boubyan Kuwait Real Estate Fund, which invests in income generating properties in Kuwait;
- Boubyan USD Liquidity Fund, which invests in USD denominated instruments;
- Boubyan Multi Asset Holding Fund, which invests in other Islamic investments funds;
- Islamic Global Sukuk Fund, which invests in Sukuk across the globe;
- Local and GCC Equity Fund, which invests in local and regional listed equity; and
- Islamic Global Income Generating Fund, which invests in local real estate and leasing products.

The launch of these funds led to a significant increase in the Group's portfolio of managed assets during the period from 2014 to 2020.

Additionally, Boubyan Capital is actively involved in the distribution of the Islamic leasing and financing funds marketed by Watani Investment Company K.S.C. (Closed) (known as NBK Capital).

In 2019, Boubyan Capital also launched its brokerage services, offering clients access to local, regional and international capital markets through an online trading platform.

As at 31 December 2020, 36 professionals work within Boubyan Capital.

#### *International operations*

International operations include the activities of the Group's overseas subsidiaries and in particular the Group's subsidiary BLME as of 31 December 2020 (*see further "Subsidiaries and Associates"*).

### Treasury reporting segment

The Group's treasury reporting segment manages the Group's assets and liabilities and liquidity requirements under the supervision of the Assets and Liabilities Management Committee ("**ALCO**"), which meets at least monthly to monitor and review all aspects of the Group's liquidity profile, asset and liability structure and internal and statutory ratio requirements. Cash flow requirements as well as foreign exchange activities are also under the supervision of Group's treasury reporting segment together with asset and liability management, including liquidity management, in coordination with the Risk Management function.

In addition, the Group's treasury reporting segment:

- manages the money market books and money market funding positions for the Group's own account to fund its domestic and international foreign-currency assets;
- undertakes a wide range of foreign exchange business, across both spot and forward markets, largely on behalf of the Group's customer base; and
- maintains a portfolio of high quality assets (being rated in accordance with CBK requirements) to meet relevant CBK requirements and to manage surplus liquidity.

### Group centre reporting segment

The Group centre reporting segment comprises the operating expenses of all other activities of the Group and the residual transfer pricing income and expenses in the central funding unit, as well as other allocations between segments.

## SUBSIDIARIES AND ASSOCIATES

The following tables set out details of each subsidiary and associated company of the Bank as at 31 December 2020 and 31 December 2019:

**Subsidiaries**

| | | **2020** | **2019** |
|---|---|---|---|
| **Name of subsidiary** | **Country of incorporation** | **Equity interest (%)** | **Equity interest (%)** |
| Boubyan Takaful Insurance Company K.S.C. (Closed) | Kuwait | 79.49 | 79.49 |
| Boubyan Capital Investment Company K.S.C. (Closed) | Kuwait | 99.95 | 99.95 |
| BLME Holdings Plc | United Kingdom | 71.08 | — |

**Associate companies**

| | | **2020** | **2019** |
|---|---|---|---|
| **Name of associate company** | **Country of incorporation** | **Equity interest (%)** | **Equity interest (%)** |
| BLME Holdings Plc | United Kingdom | — | 27.91 |
| United Capital Bank | Republic of Sudan | 21.67 | 21.67 |
| Saudi Projects Holding Group | Kuwait | 25.02 | 25.02 |

***Subsidiaries***

The purchase method of accounting, which generally requires assets acquired and liabilities assumed to be measured at their fair values at the acquisition date, is used to account for the acquisition of subsidiaries by the Bank.

*BLME*

BLME's principal activity is to act as a holding company for Bank of London and the Middle East plc and its subsidiaries. Bank of London and the Middle East plc was established in 2006 in the UK as an independent wholesale bank engaged in investment, commercial finance, private client banking and wealth management. The Bank acquired a 100.0 per cent. shareholding in BLME in 2006, which decreased to 25.62 per cent. in 2013 and increased to 27.91 per cent. in 2019. As at 31 December 2020, following the Bank's successful increase in shareholding, the Bank had a 71.08 per cent. shareholding in BLME which had paid up capital of KD 20.3 million. For the year ended 31 December 2020, BLME's total revenue was KD 13.7 million and it generated a net profit of KD 1.8 million. For the year ended 31 December 2019, BLME's total revenue was KD 14.9 million and it generated a net profit of KD 2.6 million.

*Boubyan Takaful Insurance Company K.S.C. (Closed)*

Boubyan Takaful was established on 29 May 2006 in Kuwait to provide takaful insurance services. The Bank acquired a 56.41 per cent. shareholding in 2006, which increased to 67.63 per cent. in 2012. As at 31 December 2020, the Bank had a 79.49 per cent. shareholding in Boubyan Takaful and Boubyan Takaful had paid up capital of KD 10.0 million. For the year ended 31 December 2020, Boubyan Takaful's total revenue was KD 0.4 million and it made a profit of KD 0.3 million, which represented 0.2 per cent. and 1.0 per cent. of the Group's revenue and profit, respectively. For the year ended 31 December 2019, Boubyan Takaful's total revenue was KD 0.2 million and it made a profit of KD 0.1 million.

*Boubyan Capital Investment Company K.S.C. (Closed)*

Boubyan Capital was established in 2007 in Kuwait to provide investment management services. As at 31 December 2020, the Bank had a 99.95 per cent. shareholding in Boubyan Capital and Boubyan Capital had paid up capital of KD 15.7 million. For the year ended 31 December 2020, Boubyan Capital's total revenue was KD 6.3 million and it made a profit of KD 2.9 million, which represented 3.8 per cent. and 8.8 per cent. of the Group's revenue and profit, respectively. For the year ended 31 December 2019, Boubyan Capital's total revenue was KD 5.6 million and it made a profit of KD 2.2 million.

***Associate Companies***

Investments in associates are initially recognised at cost and subsequently accounted for using the equity method of accounting in the Group's financial statements.

*United Capital Bank*

United Capital Bank was established in 2006 in the Republic of Sudan to provide Islamic investment and corporate banking services. The Bank acquired a 2.92 per cent. shareholding on 18 May 2010, which increased to 21.67 per cent. in 2010. As at 31 December 2020, the Bank had a 21.67 per cent. shareholding in United Capital Bank and United Capital Bank had paid up capital of KD 1.3 million.

*Saudi Projects Holding Group*

Saudi Projects Holding Group ("**SPHG**") was established in 2008 in Kuwait to provide real estate development and management services. The Bank acquired a 20.0 per cent. shareholding in 2011, which increased to 25.0 per cent. in 2013. As at 31 December 2020, the Bank had a 25.02 per cent. shareholding in SPHG and SPHG had paid up capital of KD 10.0 million.

## COMPETITION IN KUWAIT

The Group is the second largest Islamic banking group in Kuwait in terms of total assets, customer deposits and customer financings and advances according to financial statements for the nine months ended 30 September 2020 published by Kuwaiti banks.

The Kuwaiti banking sector (excluding foreign banks that operate in Kuwait) comprises five banks operating according to the requirements of Islamic *Shari'a* (Kuwait Finance House (K.S.C.), Warba Bank (K.S.C.), the Bank, Kuwait International Bank (K.S.C.P.) and Ahli United Bank (K.S.C.P.)). In addition, there are five banks with conventional banking licences and one bank with a specialised banking licence operating in Kuwait.

The tables below show rankings for the 10 largest Kuwaiti banks by total assets, by customer deposits and by financing assets as at 30 September 2020 and 31 December 2019.

| | **30 September 2020** | **31 December 2019** |
|---|---|---|
| | *(KD '000)* | |
| **Ranking by total assets**[(1)] | | |

| | 30 September 2020 | 31 December 2019 |
|---|---|---|
| | *(KD '000)* | |
| National Bank of Kuwait (S.A.K.P) | 24,106,993 | 23,970,205 |
| Kuwait Finance House (K.S.C) | 20,961,309 | 19,390,858 |
| Burgan Bank (K.P.S.C) | 6,942,861 | 7,081,013 |
| **The Group** | 6,276,096 | 5,300,548 |
| Gulf Bank (K.S.C.P) | 5,934,177 | 6,245,417 |
| Al-Ahli Bank of Kuwait (K.S.C.P) | 5,025,719 | 4,883,095 |
| Commercial Bank of Kuwait (K.P.S.C) | 4,512,429 | 4,873,228 |
| Ahli United Bank (K.S.C.P) | 4,314,801 | 4,351,404 |
| Warba Bank (K.S.C) | 3,546,908 | 3,143,683 |
| Kuwait International Bank (K.S.C.P) | 2,684,175 | 2,687,621 |

Note:

(1) Total assets are based on consolidated figures.

*Source: 30 September 2020 interim financial statements and 31 December 2019 annual financial statements for each bank (in the case of the National Bank of Kuwait, excluding the Group).*

As at 30 September 2020, the Group's total assets represented 16.6 per cent. of the total assets of the Kuwaiti Islamic banking sector (excluding foreign banks).

| | 30 September 2020 | 31 December 2019 |
|---|---|---|
| | *(KD '000)* | |
| **Ranking by customer deposits**[(1)] | | |
| National Bank of Kuwait (S.A.K.P) | 12,432,906 | 12,246,763 |
| Kuwait Finance House (K.S.C.) | 14,914,013 | 13,552,645 |
| **The Group** | 5,066,314 | 4,347,226 |
| Burgan Bank (K.P.S.C) | 4,514,187 | 3,991,017 |
| Gulf Bank (K.S.C.P) | 3,971,357 | 3,949,901 |
| Al-Ahli Bank of Kuwait (K.S.C.P) | 3,327,478 | 3,319,771 |
| Ahli United Bank (K.S.C.P) | 2,772,855 | 2,696,984 |
| Commercial Bank of Kuwait (K.P.S.C) | 2,442,898 | 2,452,930 |
| Warba Bank (K.S.C) | 2,359,046 | 1,705,881 |

| | 30 September 2020 | 31 December 2019 |
|---|---|---|
| | *(KD '000)* | |
| Kuwait International Bank (K.S.C.P) | 1,577,019 | 1,469,574 |

Note:

(1) Customer deposits are based on consolidated figures and referred to within the published financial statements of the above listed banks as "depositors' accounts", "customers deposits" and "deposits from customers".

*Source: 30 September 2020 interim financial statements and 31 December 2019 annual financial statements for each bank (in the case of the National Bank of Kuwait, excluding the Group).*

As at 30 September 2020, the Group's customer deposits represented 19.7 per cent. of the total customer deposits of the Kuwaiti Islamic banking sector (excluding foreign banks).

| | 30 September 2020 | 31 December 2019 |
|---|---|---|
| | *(KD '000)* | |
| **Ranking by customer financings and advances**[(1)] | | |
| National Bank of Kuwait (S.A.K.P) | 12,986,056 | 12,823,826 |
| Kuwait Finance House (K.S.C.) | 10,130,244 | 9,336,555 |
| **The Group** | 4,648,380 | 3,728,772 |
| Burgan Bank (K.P.S.C) | 4,372,624 | 4,284,320 |
| Gulf Bank (K.S.C.P) | 4,206,899 | 4,224,608 |
| Al-Ahli Bank of Kuwait (K.S.C.P) | 3,304,193 | 3,215,696 |
| Ahli United Bank (K.S.C.P)[(2)] | 3,117,105 | 3,018,755 |
| Warba Bank (K.S.C) | 2,473,844 | 2,261,974 |
| Commercial Bank of Kuwait (K.P. S.C) | 2,312,488 | 2,266,662 |
| Kuwait International Bank (K.S.C.P) | 2,003,572 | 1,865,618 |

Note:

(1) Customer loans and advances are based on consolidated figures and referred to within the published financial statements of the above listed banks as "loans and advances", "loans and advances to customers", "financing receivables", "Islamic financing to customers" and "Loans, advances and Islamic financing to customers".

*Source: 30 September 2020 interim financial statements and 31 December 2019 annual financial statements for each bank (in the case of the National Bank of Kuwait, excluding the Group).*

As at 30 September 2020, the Group's customer financings and advances represented approximately 20.8 per cent. of the total customer financings and advances of the Kuwaiti Islamic banking sector.

The Group's current competitive strategy is to focus on growing its market share and building a leading franchise in its domestic market and to attract new customers through the products and services which it offers. See "*Strategy — Building a leading Islamic finance franchise*".

The Islamic banking sector in Kuwait is attracting a growing customer base. Regulatory restrictions relating to interest rates and ratios for personal financings typically favour Islamic banks over conventional banks. In particular, whereas the interest rates that can be charged by conventional banks are capped, the Islamic banks in Kuwait are able to earn better margins than conventional banks on their financing portfolios, as the CBK permits Islamic banks to charge higher margins to compensate for the fixed nature of profit on financings. The Group's strategy is to differentiate itself by focusing on high net worth, youth and affluent clients and large and medium to large corporate customers, thereby leveraging many of the Group's core strengths. See "*Strategy — Corporate Banking — Monitoring selected growth opportunities*".

## INFORMATION TECHNOLOGY

To ensure that the Group's IT continues to meet changing business requirements, the Group's IT strategy is structured to optimise people, process and technology (each as discussed further below), with the main focus on governance, organisation, quality, applications portfolios and technology infrastructure.

### People

The Group aims to recruit and retain talented and competent IT staff to manage its technology assets and deliver change. In addition, a focus on training and succession planning aims to establish clear career paths for IT staff. However, the Group may consider alternative forms of resourcing in the future, including managed services and selective outsourcing, to allow the IT function to contain costs and better source growing needs in end user support, network management, mainframe management, tooling, project operations support, service desk and the network operations centre.

### Process

The Bank believes that process and automation are becoming more aligned, which will reduce manual intervention and enhance workflow. As part of its service improvement programme, change request processes, system development lifecycle, IT service management, IT vendor management, project management and risk and audit management are all within the IT realm of continuous improvement. The system and service tools adopted will help to monitor versions, highlight end-of-life technologies and help stabilise systems to ensure production deficiencies and incidents are kept to a minimum. The Group has recently implemented projects to enhance stability and customer experience, including upgrading its branch network and data storage capacity and increasing the stability and availability of its online banking and ATM systems.

### Technology

The Group focuses on stability and increased availability to ensure that its customers are able to access online channels and systems when needed, including online banking, mobile banking, ATMs and branch systems. As a result, the Group has focused on foundation technologies such as networks (microwave and multi-protocol label switching) upgrades and enhanced tiered storage. The Group's disaster recovery site has automated orchestration improving the cut-over between its data centres to one hour. The Group also aims to adopt enhanced metrics where both infrastructure and business applications can be fine-tuned with performance-monitoring tools. All Group businesses have measurable service level agreements which will be used to benchmark key performance indicators with a view to further continuous improvements.

### Data security

The Group has an offsite IT operations centre and a disaster recovery site located at Dasman Tower that can be activated when required. This is to ensure that all critical systems are fully operational in line with the Group's business continuity plan, in order to provide essential services to its customers. The Group carries out daily and other periodic data back-ups which are stored in the main data centre and replicated online (in real time) to the disaster recovery centre.

Additionally, the Group provides periodic tape back-ups of all critical systems and data to an international location (which is in London) in compliance with CBK instructions. The Group's information security office carries out various security assessments using external agencies and has adopted the latest technologies to assist in mitigating cyber threats. Whilst the Group has experienced cyber threats, the controls and incident response procedures in place have minimised any adverse impact on the service provided by the Group.

# RISK MANAGEMENT

## INTRODUCTION

Risk, including credit risk, liquidity risk, market risk and operational risk, is inherent in the Group's activities. The complexity in the Group's business operations and diversity of geographical locations require the identification, measurement, aggregation and effective management of risks and efficient allocation of capital towards achieving an optimal balance between risk and return.

The Group seeks to manage its risks in a structured, systematic manner through a global risk policy, which embeds comprehensive risk management into the organisational structure, risk measurement and monitoring processes. The overall risk management direction and oversight are provided by the Board with the support of the Board Risk Management and Compliance Committee (the "**BRCC**") and the Board Audit Committee (the "**BAC**"). The Group's risk management function, compliance function and internal audit function assist executive management in controlling and actively managing the Group's overall risk profile.

The key features of the Group's comprehensive risk management policy are:

- the Board provides overall risk management direction and oversight;
- the Group's risk appetite is proposed by the Management Executive Committee (the "**MEC**") and approved by the Board;
- risk management is embedded in the Group as an intrinsic process and is a core competency of all its employees;
- the Group manages its credit, market, operational and liquidity risks in a coordinated manner within the organisation; and
- the Group's internal audit function reports to the BAC and provides independent validation of the business units' compliance with risk policies and procedures and the adequacy and effectiveness of the risk management framework on a Group-wide basis.

## GROUP RISK MANAGEMENT AND COMPLIANCE FUNCTIONS

The Group's risk management function, which is headed by the Group's Chief Risk Officer ("**CRO**"), reports directly to the BRCC and assists the executive management in controlling and actively managing the Group's overall risk. The risk management function also ensures that:

- the Group's overall strategy is consistent with the risk appetite approved by the Board;
- the Group's risk policies, procedures and methodologies are consistent with the risk appetite approved by the Board;
- appropriate risk management architecture and systems are developed and implemented; and
- risks and portfolio limits are monitored throughout the Group.

The Group's compliance function is responsible for ensuring that the Group adheres to all applicable rules and regulations issued by regulators, including the CBK, the CMA and other applicable regulatory authorities.

The Board is responsible for setting the Group's risk appetite and strategy, approving the Group's risk management framework, policies and procedures and monitoring salient risks.

The Group's risk management function comprises the following departments:

- the corporate credit risk review department;
- the operational risk department;
- the fraud management and monitoring department;
- the technology risk department;
- the information security department;
- the business continuity planning department;
- the risk reporting and consumer finance department;
- the corporate credit and credit quality department;
- the asset liability management and market risk department; and
- the risk research, model governance and validation department.

For further information, see "*Management and Employees – Management – Board committees – Board Risk Management and Compliance Committee*".

## RISK STRATEGY

The key elements of the Board-approved risk strategy are:

- assisting, and communicating on an ongoing basis with, the Group's business units in respect of their risk appetites;
- maximising the risk-adjusted return of the Group while minimising volatility; and
- providing (i) a framework for the Group's risk culture and (ii) the necessary infrastructure to allow the BRCC to perform its role.

## RISK APPETITE

The Group's risk appetite defines the maximum limit of risk that the Group is willing to accept in relevant business categories in order to achieve an optimal balance of risk and return which will enable the achievement of its strategic objectives. Any risk which breaches the Group's stated risk appetite must be mitigated as a matter of priority to within acceptable levels.

The risk appetite is reviewed and recommended by the BRCC to the Board for final approval. This ensures the risk appetite statements are consistent with the Group's strategy and business environment. Through the risk appetite statements, the Board communicates to management the acceptable level of risk for the Group, determined in a manner which meets the objectives of shareholders, depositors and regulators.

The Group's risk management function aims to identify early warnings of risk limit and risk appetite breaches and is responsible for notifying such warnings and breaches to the BRCC and the Board.

## SCOPE AND NATURE OF RISK REPORTING TOOLS

The Group's risk management framework enables it to identify, assess, limit and monitor risks using a range of quantitative and qualitative tools. Some of these tools are common to a number of risk categories, while others are tailored to the particular features of specific risk categories and enable the generation of information such as:

- credit risk in corporate and consumer financing and other asset exposures, such as collateral coverage ratio, limit utilisation and past due alerts;
- quantification of the susceptibility of the market value of single positions or portfolios to changes in market parameters (commonly referred to as sensitivity analysis); and
- quantification of exposure to losses due to extreme movements in market prices or rates.

The CBK requires all Kuwaiti banks to perform semi-annual stress tests under three scenarios: mild, medium and severe. These tests must be based on two sets of assumptions: one based on CBK-prescribed parameters, which are essentially shocks on Pillar 1 risks and the other based on the Bank's own assumptions, which are generally required to be more comprehensive (by including Pillar 2 risks) than those prescribed by the CBK (see further "*Financial Review – Capital Adequacy*" and "*Overview of Banking and Finance Regulations in Kuwait – Certain Banking Regulations – Capital Adequacy Regulations*").

These parameters cover stress scenarios for Islamic financing income, fee income, foreign exchange trading income, falls in collateral value and stock market declines resulting in additional impairment losses. The Group conducts these stress tests semi-annually, as stipulated by the CBK, and also undertakes scenario testing at periodic intervals to quantify potential inherent risks that the Group faces.

The Group regularly assesses the adequacy and effectiveness of its reporting tools and metrics in light of the changing risk environment.

## PRINCIPAL RISKS

The principal risks assumed by the Group in its daily operations are:

- credit risk, which is the risk that a customer or counterparty is unable to meet its contracted financial obligations to the Group resulting in a default and/or financial loss to the Group. These risks arise in the Group's normal course of business;
- market risk, which is the risk of potential loss in value of financial instruments as a result of adverse movements in market variables such as profit rates, foreign exchange rates and equity prices. These risks arise from the Group's financing and investment activities;
- liquidity risk, which is the risk arising from the inability of the Group to generate sufficient financial resources to meet its obligations and commitments as they fall due or having to access funds at an excessive cost to meet such obligations and commitments. These risks arise in the Group's normal course of general funding activities;
- operational risk, which is the risk of loss resulting from inadequate or failed internal processes, people and systems or external events. The Bank also considers *Shari'a* non-compliance risk to be a part of operational risk and has adopted the Islamic Financial Services Board "IFSB-1" definition. Operational risk also includes compliance risk, which is separately managed;
- profit rate risk, which is the risk of changes in interest rates which may potentially impact the Group's net spread margins and profitability. This risk arises due to the normal nature of banking operations of asset liability mismatch and market changes in interest rates; and
- reputation and fiduciary risk, which is the risk of current or prospective impact on the Group's earnings and capital arising from negative public opinion since such negative public opinion may affect the

Group's ability to establish new relationships or services or to continue servicing existing relationships. Such negative opinion may arise from, amongst other things, the Group's failure to clearly communicate appropriate risk and performance projections to its customers or failure to treat funds placed under management with due care and professionalism.

## Credit risk

### *Credit risk management strategy*

The Group's approach to credit risk is premised on preserving 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 creditworthiness.

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 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.

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

The Management Credit Committee (the "**MCC**"), chaired by the Group's Chief Executive Officer ("**Group CEO**") and comprising senior executives from the business divisions, meets regularly and reviews the Group's financing portfolios and advises the Board appropriately.

Further, the Group follows a well-defined authority matrix for the approval of credit transactions, where processing of credit transactions undergoes various review and approval levels, which may be submitted to the Board or the Board Executive Committee (the "**BEC**") for approval depending on the relevant limits and terms. In addition, the Board monitors the performance of the credit portfolio on a regular basis, where the Board receives various reports from different sources, including from the BEC on significant credit activities, from the BRCC on credit risk management and measures, from the management on credit portfolio performance, and from external parties on the credit health-check review.

In compliance with CBK regulations, financing to individual Board members and related parties is fully secured and monitored by the BEC. Such transactions are made on substantially the same terms, including profit rates and collateral, as those prevailing at the time for comparable transactions with unrelated parties. All such facilities are approved by the Board in line with the relative authorities granted by 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 or the BEC.

The BRCC meets regularly to review salient risks throughout the Group, and advises the Board appropriately (see further: "*Management and Employees – Management – Board Committees – Board Risk Management and Compliance Committee*").

### *Corporate credit risk management*

Corporate credit facilities are granted based on detailed credit risk assessments which consider the purpose of the facility and source of payment, prevailing and potential macroeconomic factors, industry trends and the customer's positioning within its industry peer group.

Internal credit-rating models are regularly reviewed by the Group's risk management function in coordination with management and the BRCC and are periodically 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 BEC or the MCC while 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.

### *Consumer credit risk management*

Oversight of consumer finance risk is undertaken by an independent unit directly within the risk management function. Within this framework, limits and approval authorities are exercised by consumer banking officers with defined approval authorities.

Consumer credit risk management functional areas are aligned with key concepts of risk management, namely governance, control, measurement and reporting, and consumer credit risk is managed with three lines of defence. As the first line of defence, consumer banking (i.e. underwriting) is responsible for adherence to CBK regulations and guidelines, the credit policies, controls and processes. As the second line of defence, the consumer credit risk management team, working independently of the business unit, assesses and ensures implementation of credit risk management discipline and policies. As the third line of defence, the internal audit function independently tests, verifies and evaluates controls for effective credit risk management and implementation of policies and procedures.

All significant financing policies and amendments to policies are reviewed annually by the MEC and approved by the Board.

### *Credit review procedures and financing classification*

#### *Corporate financing*

The Group's policy is to assess the credit risk in commercial banking through a risk-rating process which provides transparency and consistency to enable comparison between obligors. The Group has reviewed and updated its internal credit rating system to the new "CreditLens" by Moody's. This system uses two approaches: fundamental analysis and scorecard, which both support sophisticated analysis of financial and non-financial metrics.

The risk rating process derives obligor risk ratings ("**ORRs**"). The rating methodology focuses on factors such as operating performance, liquidity, facility service capabilities and capital structure. The ratio assessment combines a peer, trend and absolute assessment to calculate an overall assessment of a ratio or financial metric. Qualitative assessments of the operations, liquidity, capital structure, company standing, and industry risk and management quality are also included. The system yields a score between 0 and 100, which is mapped to a master rating scale having 9 obligor risk ratings: 8 grades for performing obligors and 1 for non-performing obligors. Each rated obligor is assigned a probability of default (irrespective of facility type or collateral) over the next 12 months.

The Group has also implemented risk-rating modules for commercial real estate projects, project finance and high net worth individuals that use a scorecard based approach.

The Group is currently implementing the facility risk rating (“**FRR**”) in “CreditLens”. While the ORR does not take into consideration factors such as the availability of collateral and support, the FRR is a measure of the quality of the facility provided. A FRR mainly reflects the ability to recover any losses that might be incurred following a default, by computing the loss given default. The main components for the FRR are the ORR, the facility structure, collateral and support.

Internal obligor risk ratings are only applied if an external rating does not exist. In the event an Obligor does not have enough financials to conduct the internal assessment, it would be flagged as unrated and assigned the default probability of the lowest investment grade.

The Group classifies its exposure in accordance with the North American Industry Classification System Code in addition to the classification based on purpose codes as defined by the CBK. This additional classification helps to improve the accuracy of ORRs through peer group analysis (in respect of performance and financial indicators) and allows the Group to classify its portfolio into sub-segments, which facilitates analysis and improves the management of concentrations.

*Consumer financing*

Credit risk analytical models are used to facilitate credit decisions and to monitor credit facilities advanced to consumer banking customers. The consumer financing risk assessment for applicants uses an internal credit risk policy that is based on customer-centric methodologies which incorporate CBK regulatory guidelines and the Group’s policies related to consumer financing facilities, such as debt-to-income ratio, minimum qualifying income and limits on advances by product type.

*Portfolio management*

The Group assesses and analyses the overall portfolio quality at regular intervals in risk management committees. In addition, a risk adjusted return on capital (“**RAROC**”) model is used to assist management in pricing credit facilities granted to corporate clients. The RAROC model is based on the premise that pricing should be aligned with the risk embedded in the proposal.

The table below shows a classification of the Group’s financial assets, based on the Group’s credit rating system, as at the dates indicated.

| | **Neither past due nor impaired** | | | |
|---|---|---|---|---|
| | **High(1)** | **Standard(2)** | **Past due or impaired(3)** | **Total** |
| | *(KD ‘000)* | | | |
| As at 31 December 2020............................. | 5,795,277 | 357,521 | 124,258 | 6,277,056 |
| As at 31 December 2019............................. | 4,716,495 | 263,911 | 74,389 | 5,054,795 |
| As at 31 December 2018............................. | 3,888,958 | 228,474 | 69,331 | 4,186,763 |

Notes:

(1) 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 payment capacity which are considered to be good to excellent.

(2) Credit exposures classified as “Standard” quality comprise all other facilities whose payment performance is fully compliant with contractual conditions and which are not impaired.

(3) Credit exposures classified as “Past due or impaired” are facilities that are past due up to a maximum period of 90 days. Upon 91 days past due, the facilities are classified as impaired.

As at 31 December 2020, 44.0 per cent. of the past due or impaired category was 90 days or more past due (compared to 13.5 per cent. as at 31 December 2019 and 33.3 per cent. as at 31 December 2018) (see also "*Risk Management – Principal Risks – Credit risk – Past due and impairment provisions*").

### *Credit risk monitoring*

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

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

Credit risk reporting also includes a "dashboard" for all facilities, classification and delinquency monitoring.

A specialised and focused team on recovery and collections handles the management and collection of problem financing facilities.

### *Credit risk mitigation*

Portfolio diversification is the cornerstone of the Group'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 Group limits its financing concentration per entity to a specific percentage of the Group's regulatory capital.

Credit risk mitigants, such as collateral and guarantees, are effective mitigating factors within the Group's portfolio and collateral quality is continuously monitored and assessed. The main types of collateral accepted by the Group include cash collateral, equity shares, bank guarantees, real estate assets, sovereign debt instruments, bank debt instruments and collective investment scheme investments. Banks and creditworthy companies and individuals with high net worth are accepted as guarantor counterparties, subject to credit risk assessment. The custody and daily "mark to market" (revaluation) of financial collateral, inclusive of shares, are performed independently of the business units. Real estate collateral is valued on an annual basis. As at 31 December 2020, 61.1 per cent. of the Group's corporate financing portfolio was secured by collateral.

The Group is authorised to liquidate the portfolio of collateral at its discretion in the event of any default in the payment of the covered financing. The liquid collateral (such as cash) can then be liquidated within a matter of days and the proceeds applied to discharge the amounts outstanding on the relevant financing. The collateral enforcement process in Kuwait in respect of real estate and equity shares involves a number of steps. Given that the relevant debtor and/or guarantor may raise objections at each stage, if enforcement is contested the typical time taken to finalise enforcement proceedings in relation to real estate is between one and two months and, in difficult cases, up to three months.

Consumer financings are generally not secured. However, before granting consumer financings, the Group requires that the customer's employer makes the customer's salary payments direct to the customer's account held with the Group.

Risk transfer in the form of syndications and risk participation arrangements with other banks are also used to manage the Group's exposures.

***Impairment of financial assets***

The Group recognises impairment on financing facilities 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. The Group recognises ECL on investment in debt securities at FVOCI and on balances and deposits with banks. Equity investments are not subject to 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 shortfalls represent the difference between cashflows due to the Group in accordance with the contract and the cashflows that the Group expects to receive. The key elements in the measurement of ECL include probability of default, loss given default and exposure at default. 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 collateral, forward looking macroeconomic scenarios, among other factors.

The Group applies a three stage approach to measure the ECL and assets migrate through these three stages based on the change in credit quality and 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 which are not credit impaired; and

- 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.

At each reporting date, the Group assesses whether there has been significant increase in credit risk since initial recognition by comparing the risk of default occurring over the remaining expected life from the reporting date with the risk of default at the date of initial recognition. The quantitative criteria used to determine a significant increase in credit risk is a series of relative and absolute thresholds. All financial assets that are 30 days past due are deemed to have significant increase in credit risk since initial recognition and migrated to stage 2 even if other criteria do not indicate a significant increase in credit risk. At each reporting date, the Group also assesses whether a financial asset or group of financial assets is credit impaired. The Group considers a financial asset to be impaired when one or more events that have a detrimental impact on the estimated future cashflows of the financial asset have occurred or when contractual payments are 90 days past due. All credit impaired financial assets are classified as stage 3 for ECL measurement purposes. Evidence of credit impairment includes observable data about 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 and/or 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 is not credit impaired, these financial assets are classified as stage 1.

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.

For further information, see Note 32.2 (*Credit risk*) to the 2020 Financial Statements.

### *Past due and impairment provisions*

The Group is required to calculate provisions for credit losses on finance facilities in accordance with the instructions of the 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 if 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 facilities are managed and monitored as irregular facilities and are classified into the following four categories, which are then used to guide the provisioning process:

| **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 per cent. on cash facilities and 0.5 per cent. 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.

For further information, see Note 9 (*Provision for impairment*) and Note 32.2 (*Credit risk*) to the 2020 Financial Statements.

## Market risk

### *Market risk management*

The management and oversight of market risk inherent within the Group's non-trading activities is managed by the ALCO. All activities giving rise to market risk are conducted within a structure of approved credit and position limits.

The Group's strategy for controlling market risk involves:

- stringent controls and limits;
- strict segregation of "front", "middle" and "back" office duties;
- regular independent reporting of positions; and
- regular independent review of all controls and limits.

For further information, see Note 32.3 (*Market risk*) to the 2020 Financial Statements.

***Foreign exchange risk***

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Foreign exchange risks are controlled through limits pre-established by the Board 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 on-going basis by an independent middle office function.

For further information, see Note 32.4 (*Foreign currency risk*) to the 2020 Financial Statements.

***Equity price risk***

Equity price risk is the risk that the fair values of equities will fluctuate as a result of changes in the level of equity indices or the value of individual share prices. The Group manages equity price risk through diversification of investments in terms of geographic distribution and industry concentration. The Group's investments unit is responsible for managing its investment securities portfolio.

For equity investments classified as FVOCI in 2020, a 5.0 per cent. increase in stock prices as at 31 December 2020 would have increased equity by KD 0.9 million (compared to an increase of KD 1.0 million as at 31 December 2019). An equal change in the opposite direction would have had an equal, but opposite effect to these amounts, on the basis that all other variables remain constant.

## Liquidity risk

Liquidity risk can be caused by market disruptions or credit rating downgrades which may restrict the availability of certain sources of funding. To address this risk, management has diversified the Group's funding sources and its assets are managed with liquidity in mind, maintaining a sufficient balance of cash, cash equivalents and readily marketable securities.

The Group applies a prudent mix of liquidity controls which provide security of access to funds without undue exposure to increased costs of funds from the liquidation of assets, or aggressive bidding for deposits. Liquidity risk is monitored and evaluated daily to ensure that, over the short term and by major currency, the profile of projected future cash inflows is adequately matched to the maturity of liabilities.

The Group has established the ALCO to manage the assets and liabilities of the Group. The ALCO meets regularly to determine and review policies for managing liquidity risk as well as to set risk limits.

For further information, see Note 32.5(*Liquidity risk*) to the 2020 Financial Statements.

## Profit rate risk

Profit rate risk is the risk of losses arising due to adverse changes in profit rates and is part of normal banking activities. However, excessive profit rate risk can pose a significant threat to the Group's earnings and capital base.

To address this risk, the Group has implemented a profit rate risk management framework to manage the risk within prudent levels and limit the impact of the profit rate risk on the Group.

## Operational risk

The Group monitors its operational risks through an operational risk management framework which defines roles and responsibilities for managing and reporting operational risk. The key components of this framework are risk control, self-assessments, comprehensive documented policies, procedures and internal controls.

Through this framework, line management is able to identify, assess and decide in what form and scale it can accept, control and reduce operational risk, together with the form of risk prevention measures which are necessary. Furthermore, this framework embeds a culture of transparency of information, escalation of key issues, and accountability for issue resolution.

The Group's risk management function collates and reviews actual loss data arising from the Group's day-to-day operations to continuously refine its control arrangements.

The operational risk management framework is supplemented by regular reviews by the Group's internal audit function. The Group also has a business continuity plan and a disaster recovery centre, which are tested periodically.

The Group's business processes are closely monitored to identify, assess, control and prevent potentially illicit use of the Group's services for laundering money and/or financing terrorism. The Group's anti-money laundering ("**AML**") and counter-terrorism financing ("**CTF**") initiatives are regularly reviewed to ensure full compliance with legal and regulatory requirements and international best practices (see also "*Risk Management – Compliance*").

### Reputation and fiduciary risk

Management of reputation risk is an integral feature of the Group's corporate culture and is embedded in its internal control systems. Besides identification and management of risks, the internal control system also incorporates as an ethos the maintenance of business practices of the highest quality towards the Group's customers, shareholders, regulators, general public and fiduciary and non-fiduciary clients.

Through its policies and practices, the Group ensures that proper screening of clients' risk profiles and performance expectations is conducted prior to making investment products or services available to them. Furthermore, once a product or service is sold, appropriate risk and performance projections are clearly communicated, and funds placed under management are treated with due care and professionalism.

## RESPONSE TO COVID-19

### Group's response

Since the onset of the COVID-19 pandemic, especially upon its arrival in Kuwait, the Group and the Group's risk management function have taken various steps across the wide spectrum of risks that have emanated from this crisis, as discussed below.

### Credit risk

The Group has conducted extensive credit assessments of its wholesale and corporate financing and sukuk portfolios since the onset of the COVID-19 crisis spanning more than 90 per cent. of the Group's corporate financing portfolio and all of its sukuk portfolio. These assessments included continuous dialogue with the relevant obligor, review of the viability of the obligor's business model, consideration of the projected level of support needed, assessment of the rationale for cash flows delays and the expected timeframe for the obligor to repay. Following these assessments, the Group's internal ratings of obligors were updated and, in line with CBK guidance and the Group's internal guidance, discussions on payment deferrals with relevant obligors were conducted.

On the basis of this review, the Group has been able to assess its expected cost of risk as well as the impact on industries. The obligors remain subject to continued monitoring and regular assessment by the Group's risk management function to allow the Group to remain agile to any major changes in the risk profile of obligors.

The Group did not categorise such COVID-19 related payment deferrals as forbearance unless wider credit risk concerns had been identified. On this basis, the majority of COVID-19 related payment deferrals have been classified as stage 1 under IFRS 9 (see further "*Risk Management – Principal Risks – Impairment of financial assets*"). However, as at 31 December 2020, following the cessation of the payment deferral support scheme in September 2020, all obligors had returned to their normal payment schedules.

Since the outbreak of the pandemic, the Group has not received any restructuring request which would have resulted in an economic loss to the Group, either by way of haircut, reduction in collateral coverage, concessions provided and/or reduction in the economic value of the financing. Rather, all restructuring requests received and actioned by the Group were in respect of cash flow management to meet temporarily disrupted customer cash flows. For the 12 months ended 31 December 2020, only 2.9 per cent. of the Group's wholesale exposure had been subject to restructuring.

Although the Group's wholesale financing portfolio remains exposed to the risk of asset quality deterioration (see further "*Risk factors - Risks relating to the Bank and its ability to fulfil its obligations under the Transaction Documents - The outbreak of communicable diseases around the world, in particular the COVID-19 pandemic, has led to economic volatility, which may materially and adversely affect the Group's business, financial condition and results of operations*"), the strengths of the Group's retail portfolio, as discussed further below, are expected to mitigate this.

**Liquidity risk**

Despite the potential credit risk outlined above, the Group has not, to date, experienced any significant impact to its liquidity as a result of the COVID-19 pandemic. A contributing factor to this has been the Group's pre-COVID-19 proactive liquidity management and sourcing of long-term funding. Additionally, during 2020, the Group observed a significant increase in retail deposits and the balances of current and savings accounts. This increase is attributable to the Group's strong retail base, which includes many government employees. Whilst these customers have been subject to restrictions on opportunities to spend during the lockdown measures in Kuwait, many have also benefitted from uninterrupted salaries and moratoriums on financing instalments during the pandemic. These deposits, even after the easing of lockdown measures, provide the Group with continued liquidity. In addition to this, the availability of alternative funding to institutions, including that provided by the Kuwait Investment Authority, has also limited the impact on the Group's liquidity.

By maintaining its liquidity levels at the required liquidity regulatory ratios required by the CBK, the Group remains agile in meeting upcoming funding requirements, including the replacement of funding which was due to mature and the funding of new credit.

**Business continuity and resilience**

The COVID-19 pandemic and the measures imposed to limit the spread of COVID-19, have resulted in certain operational limits and vulnerabilities such as Group employees working from home and customers being unable to access branch locations. However, the Group's technological infrastructure, built over a number of years, has been able to adapt to such operational limits allowing for smooth transitions to the operation of executive committees and treasury operations remotely, and the increased customer traffic to the Group's digital services. This in turn has allowed the Group to continue providing its products and services to customers throughout the pandemic.

In response to the increased digital demand, the Group has taken further measures to enhance its cyber security through constant monitoring of its network traffic to provide additional protection to its customer's confidential information. As a result, the Group's digital platforms and internal digital systems have not, to date, experienced any significant events of instability ensuring its customer's confidential information has remained protected.

As at 31 December 2020, acting on the Government's directions, 70 per cent. of the Group's on-site employees had returned from remote working with all of the Group's retail branches operating at full capacity, ensuring consistent delivery to the Group's customer base whether in branch or digitally.

### The CBK's response

The CBK offered an immediate relief package at the beginning of the crisis to the Kuwait banking sector. This relief package consisted of, amongst other measures, reductions in capital requirements, through the removal of the capital conservation buffer, and reduction in liquidity requirements. Circular No. (2/BS/IBS/454/2020), issued by the CBK to all local banks on 2 April 2020, detailed certain amendments to existing regulations in order to counter COVID-19, as discussed below.

Despite the outbreak of COVID-19, the Group has maintained its financial resilience for capital and liquidity adequacy. As such, the Group remains agile to future impacts arising from the crisis and has conducted stress testing for the period until 31 December 2022 to that effect. On this basis, the Group has decided not to utilise the relief package offered and instead maintain its original risk appetite limits.

#### *Capital adequacy ratio*

The CBK introduced amendments to its Instructions issued on 24 June 2014 related to Basel III capital adequacy ratio, including:

- removing the required capital conservation buffer of 2.5 per cent. of risk weighted assets in the form of CET1 to reduce capital base requirements, as set out below; and

| **Capital components** | **Original requirement** | **Revised requirement** |
|---|---|---|
| | *(%)* | |
| Common equity tier 1 + additional tier 1 + tier 2 | 13 | 10.5 |
| Minimum core capital (common equity tier 1 + additional tier 1) | 11 | 8.5 |
| Minimum shareholders' equity (common equity tier 1) | 9.5 | 7 |

- reducing the risk weight of exposures to small and medium enterprises from 75 per cent. to 25 per cent., while continuing to apply the definition of small and medium enterprises as stipulated under Law No. 98/2013 concerning the establishment of the Kuwait National Fund for Small and Medium Enterprises Development, as amended by Law No. (14) of 2018 and its Executive Regulations and amendments.

#### *Liquidity ratios*

In addition to the amendments introduced in respect of its capital adequacy ratio requirements, the CBK implemented the following amendments in respect of liquidity ratios:

- reduced the minimum limit for liquidity coverage ratio ("**LCR**"), as originally set out in its Instructions issued on 23 December 2014, from 100 per cent. to 80 per cent.;

- reduced the minimum limit for net stable funding ratio ("**NSFR**"), as originally set out in its Instructions issued on 25 October 2015, from 100 per cent. to 80 per cent.;

- reduced the minimum limit for regulatory liquidity ratio, as originally set out in its Instructions issued on 4 December 2008, from 18 per cent. to 15 per cent.;
- increased the maximum limit of cumulative negative asset and liability maturity mismatches, as originally set out in its Instructions issued to conventional banks on 14 October 1997 and to Islamic banks on 3 November 2003 (as amended on 8 June 2004), in respect of the liquidity system as set out in the maturity ladder below;

| **Duration** | **Original maximum limit of accumulated negative mismatch** | **Revised maximum limit of accumulated negative mismatch** |
|---|---|---|
| | *(%)* | |
| 7 days or less | 10 | 20 |
| 1 month or less | 20 | 30 |
| 3 months or less | 30 | 40 |
| 6 months or less | 40 | 50 |

- increased the maximum lending limit, as originally set out in its Instructions issued on 15 March 2016, from 90 per cent. to 100 per cent.;
- amended its Instructions issued on 11 January 2005 concerning customer exemptions to the maximum limits designated for credit and financing concentrations and the corresponding rules governing applications for such exemptions to capture vital economic projects which add value to the local economy; and
- amended its Instructions issued on 12 November 2013 concerning the amount of finance available to individual customers for the purpose of purchasing and/or developing real estate properties located in the areas of private and standard housing, by increasing the loan to value ratio limits as set out below.

| **Type of financing** | **Original loan to value ratio limit** | **Revised loan to value ratio limit** |
|---|---|---|
| | *(%)* | |
| Financing for the purchase of land | 50 | 60 |
| Financing for an existing property | 60 | 70 |
| Financing for construction only | 70 | 80 |

## COMPLIANCE

### Overview

The Group's compliance function is an independent function which reports to the BRCC. The function is responsible for overseeing and managing compliance aspects across the Group through a robust compliance framework.

The compliance framework consists of compliance policies, procedures and a dashboard and compliance is monitored through timely reports. In addition, a risk and compliance matrix is used across the Group to assess and monitor the effectiveness of regulatory compliance self-assessment tools that are used by the various business units.

The Group's compliance programme has three main pillars (advise, monitor and report) built on a foundation of a sound understanding of the appropriate regulatory requirements. Advising encompasses the internal notification of regulatory change, new products and services and internal processes as well as other internal communications, including training and a compliance calendar. Monitoring includes procedures for compliance reviews, breach escalation and compliance indicators.

The Group's internal audit function also ensures that a robust compliance framework is being proactively implemented.

A risk and compliance matrix is used across the Group to assess and monitor the effectiveness of regulatory compliance in addition to regulatory compliance self-assessment tools.

### Anti-money laundering and counter-terrorism financing

The Group applies an integrated AML/CTF policy and procedures which take account of Financial Action Task Force recommendations, international sanctions lists (such as those of the United Nations, the European Union and the U.S. Office of Foreign Assets Control) and applicable AML-related laws and regulations.

The Group's CTF policies apply customer due diligence principles for applicants and customers which include the following:

- all new customers being identified and verified;
- all customers being screened against all prohibited lists to ensure full compliance with international sanctions lists; and
- all outward and inward transfers being screened to comply with all sanctions lists.

Customer transactions are monitored on a daily basis under a risk-based approach to ensure no money laundering transactions are conducted. In addition, the Group conducts enhanced due diligence in relation to high-risk customers.

### Internal audit

The Group's internal audit function is an independent function reporting, functionally, to the BAC, and administratively, to the Group CEO. The BAC has three members (two of whom have specialised financial and investments experience).

The BAC's terms of reference require it to:

- ensure the independence and effectiveness of the internal audit function;
- review the adequacy, efficiency and effectiveness of internal controls in the Group;
- review the accuracy and reliability of financial statements;

- oversee the selection of the external auditors and review their scope of work and reported findings; and
- support the *Shari'a* internal and external audit, adopt the *Shari'a* internal and external audit plans, and discuss the respective audit reports.

The Group's internal audit function is an independent and objective assurance function headed by the Group's Chief Audit Executive. The Group's internal audit function is governed by a BAC-approved internal audit charter, which defines the independence, objectivity, authority and responsibilities of the Group's internal audit function. The charter is in line with applicable regulations and promotes the standards of best professional practice issued by the Institute of Internal Auditors and applicable Basel Committee guidelines.

The Group's internal audit function has adopted a risk-based audit approach for planning and conducting its audits. In addition, identified issues are tracked and followed up on a monthly basis. Validation of action taken and reporting on implementation status with clear escalation mechanisms are in place.

Final audit reports are circulated to the BAC, the executive management and concerned members of the Group's divisions. In addition, quarterly meetings and presentations to the BAC, including highlights on key audit issues and their follow-up status, are held.

The BAC submits a quarterly report to the Board on its activities and the audit outcomes.

### Internal controls

An annual internal control review ("**ICR**") of the Group's internal control system is conducted by an external audit firm, other than the auditors of the Group's financial statements, in accordance with CBK requirements. The ICR examines the Group's accounting and other records, and evaluates the internal control systems in place.

The ICR report of the external audit firm for the year ended 31 December 2019 conveyed that the Bank maintained in all material aspects an effective internal control system. The next ICR by the external audit firm for the year ended 31 December 2020 will be concluded and submitted to the CBK in June 2021.

# MANAGEMENT AND EMPLOYEES

## MANAGEMENT

### Corporate governance framework

The Bank's corporate governance framework is based on principles and standards defined by leading professional bodies and regulatory authorities, including the CBK, and is embedded into the business activities and practices of the Bank. In 2020, the Bank implemented the corporate governance framework in line with its internal governance manual (the "**Framework**"). The Framework is designed to secure effective oversight of the Bank's strategy and business operations with a robust risk management approach, transparency and accountability, and to ensure protection of the rights of shareholders and stakeholders.

The Bank ensures that it has a sound, well balanced and effective corporate governance framework. The Board adopts and reviews the Framework and the executive management ensures proper implementation of the Framework through adequate policies, procedures and authority matrices, which the employees adhere to.

Further, the Bank is committed to providing timely, consistent and accurate information to its stakeholders and has adopted a disclosure and transparency policy to ensure that this is achieved. This policy covers a wide range of areas, including the key quantitative and qualitative information related to financial performance and financial stability, risk management factors, remuneration, corporate governance, related-party transactions, conflicts of interest and substantial changes in business.

### Board of Directors

The Bank operates under the direction of the Board, which, prior to 2021, comprised nine members elected by the shareholders under a mandate to deliver sustainable value to all stakeholders, including depositors/customers, shareholders, employees, and society. In 2021, in line with the Corporate Governance Instructions (as defined herein), two additional independent board directors will be elected to the Board (see further "*Overview of Banking and Finance Regulations in Kuwait – Certain Banking Regulations – Other CBK Instructions – Corporate Governance*").

The Board is granted the highest authorities and overall responsibilities by the shareholders to manage the Bank. The Board operates in line with the by-laws of the Bank and its charter, where its scope of work includes but is not limited to:

- setting the strategies and risk appetite for the Bank;
- approving capital and operating plans presented by management for the achievement of the Bank's strategic objectives;
- ensuring efficient application of the resources for the achievement of the objectives; and
- monitoring the performance of the Executive Management.

The primary mandate of the Board is to align the Bank's strategic objectives, risk appetite and overall corporate governance framework with the best interests of the Bank and thereby maximise value for shareholders. This mandate is coupled with responsibility for monitoring and maintaining the Bank's financial and economic stability and safeguarding the rights and benefits of all of the Bank's stakeholders.

The roles of the Board Chairman and the Group CEO are separate and independent of one another and there is a clear segregation of duties and responsibilities. The Chairman's responsibilities are set out in the Board Charter and in the terms of reference of the Board.

The table below shows the names of the members of the Board as at the date of this Prospectus.

| Name | Position |
|---|---|
| Abdulaziz Abdullah Al-Shaya | Chairman |
| Adel Abdul Wahab Al-Majed | Vice-Chairman and Group CEO |
| Adnan Abdullah Al-Othman | Board Member |
| Fahad Ahmad Al-Fouzan | Board Member |
| Hazim Ali Al-Mutairi | Board Member |
| Mohamed Yousef Al-Saqer | Board Member |
| Waleed Ibrahim Al-Asfour | Board Member |
| Waleed Mishari Al-Hamad | Board Member |
| Waleed Abdullah Al-Houti | Board Member |
| | |
| *Fatwa & Shari'a Supervisory Board* | |
| Sheikh Dr. Abdulaziz Khalifa Al-Qasar | Chairman |
| Sheikh Dr. Esame Khalaf Al-Enezi | Member/Reporter |
| Sheikh Dr. Mohammed Awad Al-Fuzaie | Member |
| Sheikh Dr. Ali Ibrahim Al-Rashid | Member |

Detailed below is brief biographical information about each member of the Board.

***Abdulaziz Abdullah Al-Shaya – Chairman***

Mr. Al-Shaya is a well-known businessman who joined the Bank in 2009 and has more than 42 years of experience in the trading and real estate sectors; he manages a trading company in Kuwait. Mr. Al-Shaya is also Vice-Chairman of the Awtad Real Estate Company, KSCC (Kuwait), Vice-Chairman of the Orient Education Services Company, KSCC (Kuwait) and Vice-Chairman of Trustees – Algonquin College (Kuwait). Mr. Al-Shaya holds a Bachelor's degree in Economics from Kuwait University.

***Adel Abdul Wahab Al-Majed – Vice-Chairman and Group Chief Executive Officer (Executive)***

Mr. Al-Majed joined the Bank in August 2009 and has approximately 40 years of banking experience. During the course of his career, Mr. Al-Majed worked for NBK, where he held several leadership positions including Deputy Chief Executive Officer and General Manager of the consumer banking group. Mr. Al-Majed is also Chairman of the board of BLME. Mr. Al-Majed graduated from the University of Alexandria with a Bachelor's degree in Accounting and has attended various executive management development training programmes at several universities, including Harvard, Wharton, Stanford and other reputable institutions.

***Adnan Abdullah Al-Othman – Director (Non-Executive)***

Mr. Al-Othman is a well-known businessman who joined the Bank in 2016 and has more than 42 years of experience in the banking and real estate sectors; he owns a real estate company. Mr. Al-Othman is also a member of the Trustees of the Estate of the Late Abdullah Abdulatif Al-Othman (Kuwait) and a member of the Executive Committee for the Implementation of the Charity Project of the Late Abdullah Abdulatif Al-Othman (Kuwait). Mr Al-Othman holds a Bachelor's degree in Industrial Engineering from Syracuse University in the United States of America.

***Fahad Ahmad Al-Fouzan – Director (Non-Executive)***

Mr. Al-Fouzan joined the Bank in 2020 and has more than 36 years of business experience including 30 years in the banking sector. He is currently the General Manager of Skills and Concepts Contracting Company, and previously held board director positions in various shareholding companies in Kuwait. He graduated from Kuwait University with a Bachelor's degree in Accounting.

***Hazim Ali Al-Mutairi – Director (Non-Executive)***

Mr. Al-Mutairi joined the Bank in 2010 and has diverse experience of more than 28 years in the fields of financing, investments, and treasury. He is currently the Chief Executive Officer of CreditOne Kuwait Holding Company, a Board Director of Warba Insurance Company, KSPC (Kuwait), and a Board Director of the Idafa Holding Company, KSCC (Kuwait). He graduated from the American University Washington D.C. in the United States of America with a Bachelor's degree in Finance.

***Mohamed Yousef Al-Saqer – Director (Non-Executive)***

Mr. Al-Saqer joined the Bank in 2019 and has more than 32 years of experience in business. Mr Al-Saqer is the Managing Partner of two trading companies in Kuwait. He graduated from Point Park University in the United States of America with a Bachelor's degree in Public Administration.

***Waleed Ibrahim Al-Asfour – Director (Non-Executive)***

Mr. Al-Asfour joined the Bank in 2019 and has more than 37 years of experience in the real estate and financial sectors. Mr. Al-Asfour manages a real estate company and an investment company in Kuwait and previously was the Vice Chairman of Al-Wodouh Capital Holding Company, KSCC (Kuwait) and a Board Director of Shorooq for Medical Services Company, KSCC (Kuwait). He holds a Bachelor's degree in Business Administration – Finance from Kuwait University.

***Waleed Mishari Al-Hamad – Director (Non-Executive)***

Mr. Al-Hamad joined the Bank in 2010 and has more than 30 years of experience, including 11 years in banking with the remainder of his experience in the investment sector. Mr. Al-Hamad is the Managing Director of a holding company in Kuwait, and Board Director and Chief Executive Officer of the Helvetia Arab Holding Company, KSCC (Kuwait). Mr. Al-Hamad holds a Bachelor's degree in Economics and a Master's degree in Finance from California State Polytechnic University, Pomona in the United States of America.

***Waleed Abdullah Al-Houti – Director (Non-Executive)***

Mr. Al-Houti joined the Bank in 2019 and has approximately 40 years of experience in the financial sector and the oil sector. He is currently the Chairman of a Kuwaiti shareholding company, which invests in petroleum services, and was previously Chairman of Al-Dorra for Petroleum Services Company, KSCC (Kuwait) and Vice Chairman of Makamen for Oil and Gas Services Company (Saudi Arabia). Mr. Al-Houti holds a Bachelor's degree in Business Administration – Finance from Kuwait University.

The business address of each member of the Board is Al-Hamad Towers, P.O. Box 25507, Safat 13116, Kuwait. No member of the Board has any actual or potential conflict of interest between his duties to the Bank and his private interests and/or other duties. All members of the Board are independent in their judgement and decisions.

## Board committees

The Board has established the five board committees, which are described below. The roles and authorities of each board committee are defined and delegated by the Board and are described in each committee's charter. The chairperson of each board committee regularly reports to the Board on the performance of the activities of the respective board committee.

***Board Executive Committee***

The BEC comprises four Board Directors, and is headed by the Vice-Chairman and the Group CEO. The members of the BEC are not members of the BAC or the BRCC. The members of the BEC collectively possess experience in banking, business and credit financing and real estate.

In accordance with the charter of the BEC, the BEC is required to meet at least six times a year. The main role of the BEC is to review and to approve limits and transactions relating to financing and investment activities as set out within the auditory matrices of the Bank. The BEC also reviews related policies.

During 2020, the BEC met 36 times, on an approximately weekly basis. The Committee performed various activities, which included but were not limited to:

- approving financing transactions in line with the approved authority limits;
- recommending settlement and/or legal cases of corporate customers to the Board for approval; and
- approving related party transactions and investment transactions within its authority limits.

The members of the BEC are Mr. Adel Al-Majed (Chairperson), Mr. Hazim Al-Mutairi (Vice-Chairperson), Mr. Waleed Al-Asfour and Mr. Waleed Al-Houti.

***Board Nomination and Remuneration Committee ("BNRC")***

The BNRC comprises four Board Directors who collectively have experience in banking, business and Islamic *Shari'a*.

In accordance with the charter of the BNRC, the BNRC is required to meet at least four times a year. The main role of the BNRC includes the assessment of the nominees for the Board based on set criteria, the administration of the assessment of the Board, the revision of the remuneration policy, the assessment of the performance of executive management, and ensuring an appropriate employee succession plan.

During 2020, the BNRC met four times. The activities of the BNRC included, but were not limited to, the following:

- reviewing the proposed remuneration schemes and proposing recommendations to the Board;
- administering the performance assessment of the Board;
- conducting the performance assessment of the Fatwa & Shari'a Supervisory Board;
- ensuring that performance assessment was conducted for executive management;
- reviewing the employee succession plan; and
- identifying training programmes to the Board.

The members of the BNRC are Mr. Mohamed Al-Saqer, (Chairperson), Mr. Fahad Al-Fouzan (Vice-Chairperson), Mr. Hazim Al-Mutairi and Mr. Waleed Al-Hamad.

***Board Governance Committee ("BGC")***

The BGC comprises four Board Directors who collectively have experience in banking, business and governance. The Chairman is the chairperson of the BGC. The BGC is required to meet at least twice a year. The main role of the BGC includes developing and updating the Bank's governance manual, ensuring that the governance manual is adequately adhered to, reviewing the annual governance report and following up on governance-related recommendations and/or actions.

During 2020, the BGC met twice in line with the minimum requirements. The BGC covered the following activities:

- approving the governance report;
- deliberating the governance review reports of the Corporate Governance Unit and following up on the status of respective actions;
- following up on the implementation of the CBK *Shari'a* governance requirements; and
- ensuring that the Board and Board Committees held an adequate number of meetings.

The members of the BGC are Mr. Abdulaziz Al-Shaya (Chairperson), Mr. Adel Al-Majed (Vice-Chairperson), Mr. Fahad Al-Fouzan and Mr. Hazim Al-Mutairi.

***Board Audit Committee***

The BAC comprises three Board Directors, who collectively have experience in banking, business, governance and audit. None of the BAC members is a member of the BEC.

The BAC is required to meet at least on a quarterly basis and its main role includes:

- reviewing the Bank's internal audit charter and manual, and accounting policies;
- assessing and recommending the appointment of external auditors;
- reviewing the Group's annual and quarterly financial statements;
- providing support to the *Shari'a* internal and external audit, adopting the *Shari'a* internal and external audit plans and discussing the respective *Shari'a* internal and external audit reports;
- approving the Bank's internal audit plan, discussing the Bank's internal audit reports, and following up on audit corrective actions;
- providing support to the Internal Audit Group to ensure the fulfilment of its scope of work effectively and independently; and
- approving the appointment and/or the resignation of the Chief Audit Executive of the Internal Audit Group, and assessing his annual performance.

The BAC met seven times during 2020, including a meeting every quarter in line with the corporate governance regulatory requirements. The activities of the BAC included but were not limited to:

- reviewing and approving the Bank's internal audit plan;
- discussing the Bank's internal audit reports, management letters of external auditors, and the Group's internal control review ("**ICR**") report;
- reviewing the Bank's annual and quarterly financial statements;
- approving the Bank's accounting policies;
- following up on the Bank's internal audit, management letters, ICR and CBK observations and respective actions;
- discussing the *Shari'a* internal audit reports; and
- meeting external auditors and external *Shari'a* auditors.

The members of the BAC are Mr. Adnan Al-Othman (Chairperson), Mr. Mohamed Al-Saqer (Vice-Chairperson) and Mr. Waleed Al-Hamad.

***Board Risk Management and Compliance Committee***

The BRCC comprises three Board Directors. None of the BRCC members is a member of the BEC.

In accordance with its charter, the BRCC meets at least four times a year, and reports on its activities to the Board on a periodic basis.

The role of the BRCC includes:

- assessing the risk appetite measures, risk strategy, and other risk-related measures, and making recommendations to the Board; and
- reviewing and discussing risk management reports, including the capital adequacy ratio, internal capital adequacy assessment process ("**ICAAP**"), stress testing, and other risk assessment reports.

During 2020, the BRCC met five times. The activities of the BRCC included, but were not limited to, the following:

- discussing the capital management plan;
- reviewing and approving various policies including credit risk policy and corporate finance policy;
- discussing quarterly risk profile reports;
- reviewing periodic ICAAP and stress testing reports;
- discussing risk asset review reports;
- discussing activity reports pertaining to compliance and AML functions; and
- monitoring business continuity during the COVID-19 pandemic.

The members of the BRCC are Mr. Waleed Al-Hamad (Chairperson), Mr. Mohamed Al-Saqer (Vice-Chairperson) and Mr. Adnan Al-Othman.

**Executive management**

The Board delegates the implementation of the Bank's adopted strategy and business plan to the executive management, which is headed by the Vice-Chairman and the Group CEO. The Bank's executive management team comprises:

| Name and position | Brief biography |
|---|---|
| Adel Abdul Wahab Al-Majed<br>*Vice-Chairman and Group CEO* | Mr. Al-Majed joined the Bank in August 2009, and has approximately 40 years of banking experience. During the course of his career, Mr. Al-Majed worked for NBK where he held several 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 has attended various executive management development programmes at several universities, including Harvard, Wharton, Stanford and other reputable institutions. |

| Name and position | Brief biography |
|---|---|
| Abdullah Abdulkareem Al-Tuwaijri<br>*Chief Executive Officer – Consumer, Private & Digital Banking* | Mr. Al-Tuwaijri joined the Bank in December 2011 and has more than 32 years of banking experience, including 23 years of experience at NBK. During his time with NBK, Mr. Al-Tuwaijri held different leadership roles in retail banking in Kuwait and London, where his last position was Deputy General Manager – Consumer Banking Group. Mr. Al-Tuwaijri received his Bachelor's degree in Finance from Kuwait University, and has attended several executive development programmes at Harvard Business School, INSEAD, and other reputable institutions. |
| Abdul-Salam Mohammed Al-Saleh<br>*Chief Executive Officer – Corporate Banking, Financial Control, Treasury & Legal Affairs* | Mr. Al-Saleh joined the Bank in October 2012, and has more than 33 years of banking experience. Mr. Al-Saleh worked for 18 years at NBK, where he gained experience in financial control and corporate banking. His last position at NBK was the Head of Domestic Corporate Banking. Prior to joining the Bank, Mr. Al-Saleh worked for over seven years for the National Bank of Abu Dhabi as the Regional Manager of its branch in Kuwait. Mr. Al-Saleh received his Bachelor's degree in Finance from Kuwait University, and has attended various management and leadership training programmes over the course of his career. |
| Waleed Khalid Al-Yaqout<br>*Group General Manager – Administration Group* | Mr. Al-Yaqout joined the Bank from NBK in February 2010 and has approximately 40 years of banking experience. His last position at NBK was General Manager – Administration and Human Resources Group. Mr. Al-Yaqout graduated with a Bachelor's degree in Business Administration and Marketing from the University of Ashland in the United States of America, and has participated in various executive management programmes at Harvard, Wharton, Stanford and Columbia. |
| Adel Abdullah Al-Hammad<br>*Group General Manager – Human Resources Group* | Mr. Al-Hammad joined the Bank in December 2006 and has more than 37 years of experience in human resources management, including 23 years of experience at NBK, where he held several key positions, the last of which was the Head of Human Resources. Mr. Al-Hammad graduated with a Bachelor's degree in Economics from Kuwait University, and attended several executive training programmes at Harvard University and Stanford University. |
| Abdullah Ahmed Al-Mehri<br>*Chief Operating Officer* | Mr. Al-Mehri joined the Bank in January 2019 and has approximately 21 years of experience in the banking sector. Prior to joining the Bank, he was head of the Off- |

| Name and position | Brief biography |
| --- | --- |
| | site Supervision Department at the Central Bank of Kuwait. He also previously worked as an Executive Manager at National Bank of Abu Dhabi in Kuwait and as a Senior Manager at National Bank of Kuwait. Mr. Al-Mehri holds a Bachelor's degree in Accounting from the American University of Cairo and a Master's degree in Business Administration from the Maastricht University in Kuwait and has attended various executive management development programmes at Harvard University. |
| Ashraf Abdallah Sewilam<br>*Group General Manager – Corporate Banking Group* | Mr. Sewilam joined the Bank in September 2013, and has over 27 years of experience in the banking sector. Prior to joining the Bank, Mr. Sewilam was Chief Executive Officer of Al Rajhi Bank-Kuwait. He also previously held the position of the Chief Executive Officer of UBCI (a subsidiary of Ahli United Bank (AUB) in Libya) and was the Deputy Chief Executive Officer at AUB in Kuwait for the corporate and treasury divisions. Mr. Sewilam also worked for 10 years at NBK, where he progressed into several managerial positions, the last of which was as Executive Manager. Mr. Sewilam holds a Bachelor's degree in Economics from Cairo University. |
| Abdul Rahman Hamza Mansour<br>*Chief Audit Executive – Internal Audit Group* | Mr. Hamza joined the Bank in 2006 and has approximately 40 years of professional experience with financial institutions. Prior to joining the Bank, he held a position as Audit Manager at the Kuwait Investment Authority and prior to this worked at the Al-Ahli Bank of Kuwait. Mr. Hamza holds a Bachelor's degree in Accounting from Ain Shams University, Egypt, and he is a Certified Public Accountant (CPA), a Certified Internal Auditor (CIA) and a Certified Fraud Examiner (CFE). |
| Mohamed Ibrahim Ismail<br>*Group General Manager – Financial Control Group* | Mr. Ismail joined the Bank in July 2005 and has approximately 25 years of banking and financial services experience. Mr. Ismail started his career as an external auditor with Deloitte & Touche and later with Ernst & Young. In the course of his career, he has worked at the Kuwait Finance House and Gulf Investment House. Mr. Ismail is a Certified Public Accountant and a Certified Internal Auditor, and holds a Master's in Business Administration in Finance from Manchester Business School. |
| Majed Fanous<br>*CRO* | Mr. Fanous joined the Bank in February 2018 and has over 33 years of experience in banking, risk management and financial regulation. Before joining the Bank, he was a lead partner of the Risk and Regulatory practices of Ernst |

| Name and position | Brief biography |
|---|---|
| | & Young in the UK and the MENA region. Additionally, Mr. Fanous has also worked as a lead partner of the Finance and Performance Management department of Accenture's UK and Ireland practice. Mr. Fanous holds a Bachelor's degree in Accounting from Cairo University. |
| Adel Rashad Al-Mutairi<br>*Treasurer* | Mr. Al-Mutairi joined the Bank in April 2015 and has over 17 years of experience in banking, with a focus on treasury services. Prior to joining the Bank, Mr. Al-Mutairi was Vice-President of Treasury at Warba Bank. He holds a Bachelor's degree in Education – Mathematics and has attended executive management programmes at Wharton Business School and Harvard Business School. |
| Noora Sulaiman Al-Fassam<br>*Chief Strategy Officer* | Ms. Al-Fassam joined the Bank in April 2019 and has over 21 years of experience in corporate finance and investment banking. Prior to joining the Bank, Ms. Al-Fassam was the Chairman's Consultant and Executive Vice President of Investment Banking at National Investments Company K.C.S. Ms. Al-Fassam also previously worked in the investment banking team at NBK. Ms. Al-Fassam holds a Bachelor's degree in Industrial Engineering and Management Systems and a Master's degree in Business Administration from Kuwait University. |
| Jabra Raja Ghandour<br>*Chief Executive Officer – Boubyan Capital* | Mr. Ghandour joined the Bank in April 2018 and has over 35 years of experience in banking and investment. Prior to joining the Bank, Mr. Ghandour was the Chief Executive Officer and Board Director of BLME. He has also previously worked as the Managing Director of International Bank of Qatar, General Manager of NBK-Jordan and the Head of Private Banking of NBK-Kuwait. Mr. Ghandour holds a Master's degree in Engineering from the University of Texas and a Bachelor's degree in Civil Engineering from the University of Texas and has attended an executive management programme at Wharton Business School. |

The business address of each member of the executive management is Al Hamad Towers, P.O. Box 25507, Safat 13116, Kuwait. No member of the Bank's executive management has any actual or potential conflict of interest between his/her duties to the Bank and his/her private interests and/or other duties.

### Management committees

The Bank has a set of management committees to assist in fulfilling the duties and responsibilities of the executive management. The management committees derive their authorities primarily from the Vice-Chairman and the Group CEO, based on authorities and limits delegated by the Board of Directors.

*Management Executive Committee*

The MEC deals with all significant management level matters other than those handled by other management committees. The MEC meets whenever needed.

*Assets and Liability Management Committee*

The ALCO reviews the assets and liability composition of the Bank, liquidity risks, market risks, trends and their impact on the Bank. The ALCO meets on a monthly basis.

*Management Credit Committee*

The main objective of the MCC is to discuss and make decisions within its authorised limits on financing proposals submitted by the Bank's business groups. The MCC usually meets on a weekly basis.

*Management Investment Committee ("MIC")*

The MIC discusses and makes decisions within its authorised limits on investment proposals submitted by the relevant business groups. The MIC usually meets on a weekly basis.

*Provisions Committee ("PVC")*

The PVC reviews and evaluates the outstanding investments and financing transactions for each customer to determine any issues or difficulties relating to the customer's position that require the classification of such investments and financing transactions as irregular and hence determining the required provisions in accordance with CBK instructions and IFRS. The PVC meets at least once every quarter.

## EMPLOYEES

The Bank's human resources policy is designed to attract, retain and motivate high-calibre, professional, skilled and knowledgeable employees. The Bank protects and abides by the rights provided to employees, which include, but are not limited to: (i) a transparent working environment; (ii) employee talent management schemes; (iii) a transparent remuneration and compensation structure; and (iv) access to a "whistleblowing" policy (which enables all employees to raise concerns in good faith and confidence directly to top management).

The Bank has developed a "Talent Development Program" to provide employees identified as possessing leadership potential with exposure to various departments within the Bank. In line with its commitment to develop and invest in its key "human capital" resources, the Bank collaborates with world-class universities to provide these employees with training in a wide range of leadership disciplines.

As at 31 December 2020, the Bank employed 1,531 full-time staff compared to 1,512 full-time staff and 1,344 full-time staff as at 31 December 2019 and 31 December 2018, respectively.

The Bank is committed to identifying, attracting and developing Kuwaiti nationals in its workforce. The Government's recommended policy is that not less than 70 per cent. of a bank's total personnel should consist of Kuwaiti nationals. The Bank's Kuwaitisation level as at 31 December 2020 was 76.6 per cent. and it is currently in compliance with all other applicable employment regulations.

# OVERVIEW OF KUWAIT

*Unless indicated otherwise, information in this section has been derived from Government publications.*

## COUNTRY PROFILE

Kuwait is a sovereign state on the coast of the Arabian Gulf, enclosed by Saudi Arabia to the south and south-west and Iraq to the north and west. Kuwait has proven conventional crude oil reserves of 101,500 million barrels, the fifth largest in the world (according to OPEC's Annual Statistical Bulletin 2020). The total area of Kuwait is 17,818 square kilometres. Kuwait is a constitutional monarchy with a parliamentary system of government and Kuwait City serves as the state's political and economic capital. Kuwait has an open economy which is primarily dependent on its oil industry and is dominated by the government sector. Based on information from the Kuwait Central Statistical Bureau, Kuwait's population was estimated to be approximately 4.5 million as at 1 January 2020 (of which Kuwaiti nationals accounted for 30.6 per cent.).

## POLITICAL OVERVIEW

Kuwait is a constitutional monarchy with a parliamentary system of government. The head of state, the Emir, appoints the Prime Minister, who leads a collective majority of elected members of parliament (the "**National Assembly**") to form the government of Kuwait. The Prime Minister selects a cabinet of a maximum of 16 members and at least one cabinet minister must be drawn from the National Assembly. The membership of the cabinet is subject to the approval of the Emir. The current National Assembly was elected on 5 December 2020 for a four year term.

The current Emir is His Highness Sheikh Nawaf Al-Ahmed Al-Jaber Al-Sabah, with the current Crown Prince being His Highness Sheikh Meshal Al Ahmad Al-Sabah and the current Prime Minister being His Highness Sheikh Sabah Al- Khalid Al-Sabah.

In terms of foreign relations and membership of international organisations, Kuwait, together with the Kingdom of Bahrain, the Sultanate of Oman, the State of Qatar, the Kingdom of Saudi Arabia and the United Arab Emirates, form the GCC. Kuwait is also a member of OPEC and the United Nations. It is also a member of numerous international and multilateral organisations, including the IMF, the International Bank for Reconstruction and Development, the World Trade Organization, the League of Arab States, the Organisation of the Islamic Conference, the Multilateral Investment Guarantee Agency and the United Nations Educational, Scientific and Cultural Organization.

## ECONOMIC OVERVIEW

According to data from the IMF's World Economic Outlook Database October 2020, Kuwait's real GDP increased by 2.9 cent. in 2016, decreased by 4.7 per cent. in 2017, increased by 1.2 per cent. in 2018 and increased by 0.4 per cent. in 2019. According to preliminary IMF data, Kuwait's real GDP is projected to have declined by 6.0 per cent. in 2020 and is projected to increase by 2.3 per cent. in 2021. Based on the Ministry of Finance's Closing Accounts, Kuwait posted a budget surplus for 14 fiscal years through to 31 March 2014. However, due to lower oil prices since mid-2014, Kuwait has since realised a net budget deficit (after transfers to the Future Generations Fund) for the fiscal years ended 31 March 2015, 2016, 2017, 2018, 2019 and 2020.

The IMF's data indicates that inflation in Kuwait, on an average consumer price measure, was 3.7 per cent. in 2015, 3.5 per cent. in 2016, 1.5 per cent. in 2017, 0.6 per cent. in 2018 and 1.1 per cent. in 2019. The IMF estimates that inflation in Kuwait has decreased to 0.5 per cent. in 2020 and will increase to 2.3 per cent. in 2021.

The oil and oil products sector is the most significant contributor to Kuwait's GDP. Oil and gas exports accounted for 38.1 per cent. of Kuwait's nominal GDP in 2016, 41.3 per cent. of nominal GDP in 2017, 47 per cent. of nominal GDP in 2018 and was projected to have accounted for 45 per cent. of nominal GDP in 2019 (according to the IMF's March 2020 Article IV Consultation with Kuwait). The sector is also the main contributor to Kuwait's annual revenues. On average, Kuwait produced 2.74 million barrels of crude oil each day in 2018 increasing to 2.68 million barrels in 2019 (according to OPEC's December 2020 Monthly Oil Market Report). As a founding member of OPEC, Kuwait's oil production is subject to any agreements that are reached to limit oil production and in April 2020 Kuwait participated in the 'OPEC plus' agreement, and the subsequent extension in July 2020, to cut global oil production in response to the reduced demand for oil following the outbreak of COVID-19. As such, in 2020, Kuwait produced an average of 2.43 million barrels of crude oil per day (according to OPEC's January 2021 Monthly Oil Market Report).

The IMF estimates that Kuwait's non-oil GDP grew by 1.4 per cent. in 2016, 1.8 per cent. in 2017 and 2.3 per cent. in 2018 and estimates that such growth will have increased to 3.0 per cent. in 2019 and will have decreased to 2.0 per cent. in 2020. However, the IMF projects that Kuwait's non-oil GDP will move to be between 3.0 per cent. to 4.0 per cent. in the medium term, supported by consumption and government investments in infrastructure and the oil sector (according to the IMF's March 2020 Article IV Consultation with Kuwait).

Kuwait is estimated to have total reserves (including gold) worth U.S.$43.7 billion as at 31 December 2019 (according to the World Bank). In addition, Kuwait's sovereign wealth fund, the Kuwait Investment Authority, which was launched in 1953 and is the oldest sovereign wealth fund in the GCC region, has approximately U.S.$533 billion of assets under management as at 31 December 2020 according to data from the Sovereign Wealth Fund Institute.

## DEVELOPMENT STRATEGY OF KUWAIT

In 2010, the Government announced its new overall strategy for Kuwait's future development to the year 2035 known as "Kuwait Vision 2035" which is based on three main themes:

- recovering the pioneering regional role of Kuwait and transforming it into a financial and trade centre, attractive to investors, where the private sector plays the lead role in economic activity creating competition and promoting efficiency, with supportive national governmental institutions providing the adequate infrastructure, appropriate legislative framework and an inspiring business environment;
- providing a climate for balanced human development, safeguarding social values and national identity and preserving the community's values; and
- strengthening the democratic system, respect for the Constitution, and the promotion of justice, political participation and freedom.

### The New Kuwait Plan

On 30 January 2017, the Government updated its long-term development strategy under the slogan "New Kuwait 2035". The New Kuwait Plan is based on the following seven thematic pillars and objectives:

- public administration: reform administrative and bureaucratic practices to reinforce transparency, accountability and efficiency in the Government;

- economy: develop a prosperous and diversified economy to reduce Kuwait’s dependency on oil revenues;
- infrastructure: develop and modernise the national infrastructure to improve the quality of life for Kuwait’s citizens;
- living environment: ensure the availability of accommodation through environmentally sound resources and tactics;
- healthcare: improve service quality and develop national capabilities in the public healthcare system;
- human capital: reform the education system to better prepare Kuwait’s youth to become competitive, productive and competent members of the workforce; and
- global position: enhance Kuwait’s regional and global presence in spheres such as diplomacy, trade, culture and philanthropy.

## BANKING SECTOR IN KUWAIT

According to IMF data, credit growth in Kuwait increased to 4.4 per cent. in the year ended 2019 compared to 4.2 per cent. for the same period in 2018. This increase was primarily due to growth of 3.9 per cent. in credit extended in personal facilities and 9.3 per cent. in credit extended in real estate facilities. Credit facilities extended to non-bank financial institutions in Kuwait also increased by 9.0 per cent. during the period and credit extended to the trade sector decreased by 2.7 per cent. in the same period. Additionally, amended regulations issued by the CBK concerning the maximum limit of consumer loans (which raised the maximum limit of loans and Islamic financing for consumer purposes to 25 times the net monthly salary of the client subject to a maximum of KD 25,000) resulted in consumer loans increasing by 35.9 per cent. in the year ended 31 December 2019 compared to the year ended 31 December 2018 which also contributed to the increase in credit growth, according to data published by the CBK.

According to data published by the CBK, total deposits in Kuwait grew by 0.3 per cent. in the year ended 31 December 2019, driven by growth in Government deposits whereas private sector deposits fell by 1.7 per cent. in the same period.

In line with CBK requirements, the banking sector in Kuwait had a Basel III capital adequacy ratio of 18.5 per cent. as at 31 December 2019. In 2019, the banking sector’s non-performing loans (“**NPLs**”) coverage ratio was 270.6 per cent. with NPLs representing 1.8 per cent. of total loans compared to 1.6 per cent. as at 31 December 2018. In 2019, local banks in Kuwait maintained high liquidity levels, with total bank liquid reserves (comprising cash, deposits with the CBK and CBK bonds and *tawarruq*) being KD 6.8 billion as at 31 December 2019, equivalent to 9.6 per cent. of local banks’ total assets, compared to 9.3 per cent. as at 31 December 2018.

According to CBK publications, local banks’ profits in Kuwait for the year ended 31 December 2019 were KD 918 million, representing a decrease of 1.1 per cent. compared to the same period in 2018.

# OVERVIEW OF BANKING AND FINANCE REGULATIONS IN KUWAIT

## THE CENTRAL BANK OF KUWAIT

The CBK was established by Law No. 32 of 1968 (the "**Banking Law**") and is managed by a board which is chaired by the Governor of the CBK. In addition to the Governor, this board comprises the Deputy Governor, a representative from each of the Ministry of Finance and the Ministry of Commerce and Industry (the "**MOCI**") and four additional members, each of whom must be a Kuwaiti national and must be nominated by the Minister of Finance (after obtaining the approval of the Council of Ministers). Each of the four additional board members is drawn from expert practitioners in economics, finance or banking and is appointed by an Emiri Decree for three years. The Governor and the Deputy Governor are each appointed by decree for a five year renewable term.

The CBK is entrusted with the supervision of Kuwait's banking system. Its supervisory authority covers an array of banking institutions, including conventional banks operating in Kuwait, Islamic banks, specialised banks, branches of foreign banks operating in Kuwait and a number of investment and exchange companies. Only banks licensed and regulated by the CBK are allowed to engage in the conduct of banking activities in Kuwait. In addition to the CBK's supervisory responsibilities with respect to the various banking institutions it regulates and its role as the monetary authority, the CBK's responsibilities include acting as lender of last resort to the banking sector and serving as banker and financial adviser to the Government. The CBK issues currency and directs relations with international institutions. The CBK, either directly or through other financial institutions, undertakes operations relating to the sale and management of securities issued or guaranteed by the Government, or issued in Kuwaiti dinar by any public organisation or institution. The CBK may purchase, sell, discount and rediscount Government treasury bills and purchase and sell public debt securities issued and offered for sale by the Government. Islamic banks have been under CBK supervision since 2003.

In its supervisory capacity, the CBK may at any time inspect banks, investment companies and other institutions subject to the CBK's supervision, including branches, companies and banks that operate abroad that are subsidiaries of Kuwaiti banks. The CBK may issue instructions to banks as it deems necessary to realise its credit or monetary policy and to ensure the sound progress of the Kuwaiti banking system. The CBK is entitled to inspect any accounts, books, records, instruments and any other documents that it deems necessary for performing its supervisory role and may also request any other relevant data and information to be provided by any board member of any CBK-regulated institution. On completion of each inspection, the CBK issues a comprehensive report incorporating its recommendations of actions to be taken to address any issues identified during the inspection.

CBK instructions cover a wide range of matters, including the liquidity system, maximum limits for credit concentration, credit facilities classification, interest and profit rate ceilings, the organisation of banks' credit policy, the extension of consumer loans and financings and other instalment loans and financings, the extension of banking services, foreign exchange transactions and portfolio management (see further "*Overview of Banking and Finance Regulations in Kuwait – Certain Banking Regulations*"). The CBK may impose penalties on any institution that fails to comply with an instruction.

The National Assembly passed Law No. 30 of 2003 (concerning Islamic Banks) that amended the Banking Law to include a special section on the rules and regulations governing Islamic banks (the "**Islamic Banking Law**"). The Islamic Banking Law allows conventional Kuwaiti banks to practise Islamic banking activities through affiliates in which the principal bank owns at least 51 per cent. of the capital, and shall maintain that percentage at all times after the establishment. The Islamic Banking Law further provides that each bank is allowed to establish one affiliate that has only one headquarters with a capital of not less than KD 15 million.

The Islamic Banking Law also allows the CBK to introduce Islamic instruments to deal with Islamic banks in order to regulate banking liquidity. In conjunction with instructions issued to conventional banks, the CBK also issues separate instructions for Islamic banks.

The CBK has also established the Financial Stability Unit (the "**FSU**"), which seeks to safeguard Kuwait's banking and financial systems against financial and economic shocks, suggesting appropriate corrective measures using macroeconomic models. The FSU also assists in ensuring an effective internal supervisory system and good governance practices.

The Banking Law has allowed the CBK to make progress towards meeting international standards on the supervision and management of the country's banking and financial system. Through the Banking Law, the CBK has the power to enter into memoranda of understanding with foreign authorities for the purposes of collaborative supervision. The CBK can also impose fines, limit activities, remove senior management, and appoint a controller or a commissioner, or both, to manage a financial institution under its supervision.

## CERTAIN BANKING REGULATIONS

All banks operating within Kuwait are subject to the supervision of the CBK, which is the primary regulator of banks and financial institutions in Kuwait, whilst the CMA exercises supervisory authority over all Kuwaiti entities (including banks and financial institutions) which are listed on Boursa Kuwait or engage in securities activities as discussed further below. The CBK imposes the following regulations upon banks:

### Legal Form

Only Kuwaiti shareholding companies and branches of foreign banks licensed by the CBK may engage in the business of banking.

### Liquidity

The CBK requires banks to maintain 18 per cent. of their KD customer and government deposits in the form of liquid assets comprising balances with the CBK or, in the case of Islamic banks only, *tawarruq* placements or qualified financial instruments such as sukuk issued by the Islamic Development Bank or governments of the GCC member countries (provided that the sukuk are traded and are rated not less than BBB or equivalent).

Bank liquidity in Kuwait is monitored using the maturity ladder approach, under which future cash inflows are compared with future cash outflows. The resulting liquidity mismatches are then examined in time bands against approved limits for each band. The relevant CBK instruction relating to liquidity establishes the elements to be included when calculating assets and liabilities for the purpose of determining liquidity.

The CBK requires Kuwaiti banks to maintain a LCR and a NSFR in accordance with the requirements of the Basel III accord. The LCR represents a 30 day stress scenario with combined assumptions covering both bank-specific and market-wide stresses. The LCR requirements were implemented in stages starting with 70 per cent. in 2016, 80 per cent. in 2017, 90 per cent. in 2018 and 100 per cent. on 1 January 2019 when the full LCR requirement came into effect. Reporting of the LCR was introduced from 1 January 2016. The NSFR is defined as the amount of available stable funding relative to the amount of required stable funding. This ratio is required to be equal to at least 100 per cent. on an ongoing basis. Full compliance with the NSFR requirement was effective from 1 January 2018 for all Kuwaiti banks until 2 April 2020 (see "*Risk Management - Response to COVID-19 - The CBK's response - Liquidity ratios*").

## Credit Risk Regulations

### *Loans/financings to deposit ratio*

Kuwaiti banks are restricted by the CBK from lending or financing amounts in excess of a prescribed percentage of qualifying deposits. With effect from October 2016, qualifying deposits exclude interbank deposits and an overall ratio of 90 per cent. is required to be maintained.

### *Investment limits*

The total value of the securities portfolio held by a Kuwaiti bank should not exceed 50 per cent. of the bank's capital in its comprehensive concept, as defined under relevant CBK instructions. Further, the value of an investment in the securities of any one issuer should be the lower of 10 per cent. of the bank's capital in its comprehensive concept or 10 per cent. of the issuer's capital.

### *Credit facility classifications*

The CBK requires banks operating in Kuwait to evaluate and classify their credit facilities into two categories (regular and irregular) on a periodic basis. The relevant CBK instructions specify the cases when a credit facility must be classified as "irregular" and include where: (i) payment of an instalment is not made; (ii) interest or profit is not paid on the maturity date; or (iii) the debit balance exceeds the drawing limits determined for the customer.

### *Foreign exchange transactions*

Local banks may deal with foreign banks for foreign exchange transactions, may deposit Kuwaiti dinar with foreign banks and may enter into foreign exchange swap and other derivative transactions, including options, futures and forward contracts.

## Concentration Risk Regulations

### *Maximum limit for credit concentration*

Subject to certain exceptions, or where prior CBK approval has been obtained, the total credit liabilities of any single customer (including its legally or economically associated entities) to a bank may not exceed 15 per cent. of the bank's capital base.

### *Clustering limit – total limit for large concentrations*

The aggregate of large credit concentrations (being concentrations which exceed 10 per cent. of a bank's capital base), including any exceptions approved by the CBK, may not exceed four times a bank's capital base.

### *Consumer loans and financings*

The CBK's instruction on "Buy Out and Top Up" issued in July 2015 provides that consumer and instalment financings granted to a bank's customers can be utilised for the purpose of paying an existing consumer or instalment financing with another bank in Kuwait. In November 2018, the CBK amended the regulations on granting personal loans/financing. Taking into consideration changes in macroeconomic conditions and customer demographics, these amendments increased the single customer financing limited for both consumer loans and Islamic financing. In general, the maximum limit on consumer loans to a single customer is 25 times the net monthly salary (or continuous monthly income) of the customer, or KD 25,000, whichever is higher, and the maximum tenor for consumer loans is five years. An "instalment" loan is a long-term amortising personal loan intended for non-commercial purposes, in particular for repair or purchase of a private residence. The maximum limit on instalment loans to a single customer is KD 95,000 (which is inclusive of the maximum limit on any "consumer" loans advanced to the same customer). The maximum tenor for instalment loans is 15 years. A customer's total consumer and instalment loans must not exceed 40 per cent. of that customer's net annual salary.

### *Extension of facilities for non-residents*

Local banks are permitted to extend credit facilities in KD to non-residents without the need for prior consent from the CBK only in connection with financing contracts awarded by government bodies in Kuwait whose value does not exceed KD 40 million and where the financing does not exceed 70 per cent. of the total value of the contract. In all other cases, CBK consent is required for financing to non-residents.

## Capital Adequacy Regulations

On 24 June 2014, the CBK issued its final instructions ("Implementing Capital Adequacy Standards – Basel III – for conventional banks" and "Implementing Capital Adequacy Standards – Basel III – for Islamic banks") (the "**Basel III Instructions**") to conventional and Islamic banks in Kuwait.

The Basel III reforms strengthen the quality of capital and introduce several buffer requirements in line with proposals made by the Basel Committee. The CBK Basel III framework consists of three pillars:

- Pillar 1 provides a framework for measuring capital requirements for credit, operational and market risks under the "Standardised Approach";
- Pillar 2 relates to the supervisory review process and emphasises the importance of the ICAAP performed by banks; and
- Pillar 3 aims to complement the above capital adequacy requirements under Pillar 1 and Pillar 2 by requiring banks to provide a consistent and understandable disclosure framework which facilitates comparison, thus enhancing the safety and soundness of the banking industry in Kuwait.

The Basel III framework raised both the quality and quantity of the capital base and increased capital requirements for certain positions. The minimum requirements for capital are underpinned by a leverage ratio that serves as a backstop to the risk-based capital measures. There are also buffer requirements in the form of a capital conservation buffer, a countercyclical capital buffer and an additional surcharge for banks designated as domestic systemically important banks.

The Basel III Instructions require that the terms and conditions of Tier 1 or Tier 2 instruments issued by a licensed bank in Kuwait must contain a provision that permits such instruments to either be written-off or converted into common equity, as determined by the CBK, should a Trigger Event (as defined below) occur. Pursuant to the Basel III Instructions, a "**Trigger Event**" will have occurred if either of the following events occurs:

- the issuing bank is instructed by its regulator to write-off or convert such instruments, on the grounds of non-viability; or
- an immediate injection of capital is required, by way of an emergency intervention, without which the issuing bank would become non-viable.

Notwithstanding the definition of Trigger Event set out above, the Conditions only allow for a Write-down (as defined in the Conditions), and not a conversion into ordinary shares, of the Certificates to take place following the occurrence of a Trigger Event.

Local banks' strong capital adequacy ratio levels, which are driven largely by high quality Tier 1 capital, underscore the strength of the Kuwaiti banking system in weathering major stress scenarios.

## Interest/Profit Rate Cap Regulations

The CBK's instruction to conventional banks provides that the maximum limits for such rates on KD financings to corporate borrowers should not exceed:

- 2.5 per cent. over the CBK's discount rate in the case of commercial financings with a maturity of one year or less; and
- 4 per cent. over the CBK's discount rate in the case of commercial financings exceeding one year.

Interest and profit rates for housing and consumer loans and financings denominated in Kuwaiti dinar are currently capped at the CBK discount rate plus 3 per cent. for each block of five years. Such rates may be adjusted by no more than plus or minus 2 per cent. for each subsequent block of five years.

While these regulations pertain to conventional banks they effectively set the rate environment in which all banks, including Islamic banks, operate and compete.

Interest and profit rates for loans and financings in currencies other than the Kuwaiti dinar are not regulated by the CBK.

## Other CBK Instructions

### *Management of third parties' portfolios*

Instructions apply to portfolios managed by banks and investment companies for the account of third parties and invested in foreign securities and other financial instruments.

### *Shari'a Supervisory Board*

Islamic banks in Kuwait must have a *Shari'a* supervisory board, which must have a minimum of three members. The *Shari'a* supervisory board is responsible for determining the *Shari'a* compliance of bank products and transactions. The board of directors of an Islamic bank must implement the directives of the *Shari'a* supervisory board regarding *Shari'a* compliance.

### *Corporate Governance*

On 10 September 2019, the CBK issued updated instructions for the "Rules and Regulations of Corporate Governance in Kuwaiti Banks" (the "**Corporate Governance Instructions**") which apply to all banks in Kuwait. The Corporate Governance Instructions provide principles that should be followed and applied by Kuwaiti banks in order to ensure proper governance. These include ensuring the independence of the board, setting a strategy, having a clear risk policy, protecting the interests of depositors and conducting business in a safe manner. The Corporate Governance Instructions require each bank to produce a governance manual (which must be approved by the bank's board) and to establish a governance committee to ensure the execution of the governance manual. Additionally, this year, the Corporate Governance Instructions highlighted the issue of cybersecurity risk for banks.

The Corporate Governance Instructions were amended by the CBK on 10 September 2019 to require the existence of independent directors in the composition of a banks' board of directors and its board committees. Effective on 30 June 2020, a bank's board must comprise no less than 11 board members, two of whom must be deemed "independent" but in no circumstance should the independent board members occupy more than half of the board seats. Another two independent board members are to be included to the overall composition of a bank's board by 30 June 2022 to provide a total of four independent board members from the, at least, 11 board members.

The Corporate Governance Instructions provide principles that should be applied by Kuwaiti banks in order to ensure proper governance. They comprise nine pillars that cover, amongst other things, board composition, independent board members, risk management governance, compliance governance, cyber security, disclosure and transparency, remuneration policies and systems and overall protection of shareholder and stakeholder's rights. The Corporate Governance Instructions require each bank to adopt a corporate governance manual and establish a corporate governance committee, tasked with devising an overall framework for the adherence to the governance manual.

The Corporate Governance Instructions define the role of a bank's board, the executive management (which is to include the chief executive officer), the risk committee, the internal and external audit committee, and any other committees that have an active role in the business of the bank. The Corporate Governance Instructions also require each bank to adopt a disclosure and transparency policy (covering topics including material information that may affect the relevant bank's financial position, changes to its management, board or shareholding structure).

The Bank's Board has adopted and implemented internationally accepted as well as local corporate governance practices, including the Corporate Governance Instructions (see further "*Management and Employees – Management – Corporate governance framework*").

### *Other CBK Guidelines*

The CBK has also issued instructions containing guidelines relating to, among other matters: (i) post-dated cheques; (ii) banks' credit policy ratios; (iii) verification of the purpose of credit facilities granted to customers; (iv) collateral to be granted by customers against credit facilities; (v) the provision of facilities for trading in shares listed on the Boursa Kuwait; (vi) the protection of customers; (vii) special needs of customers; and (viii) anti-money laundering and combating the financing of terrorism.

## APPLICATION OF CBK REGULATIONS TO THE BANK

The Bank is incorporated as a public shareholding company in Kuwait. The Bank is licensed by the CBK to conduct banking activities and operates under its supervision. The Bank is also listed on Boursa Kuwait. As a Kuwaiti shareholding company, the Bank must have a valid commercial licence issued by the MOCI to perform its banking activities. The MOCI issued commercial licence is renewable every four years. The Bank's commercial licence was last renewed on 12 July 2020 and expires on 11 July 2024. The Bank has no reason to believe that its commercial licence will not be renewed by the MOCI for future periods.

The CBK acts as lender of last resort to all of the Kuwaiti banks. As a financial institution, the Bank is required to submit various periodic and one-off reports to the CBK in a format prescribed by it. The CBK also conducts periodic inspections of banking and financial institutions (banks, investment companies, money exchange companies and mutual funds) which are subject to its supervision in order to ascertain their financial sustainability and their adherence to their constitutional by-laws. These inspections may be in the form of a specific inspection or a full audit of all activities. The CBK's most recent inspection of the Bank was conducted on 13 January 2019 and the CBK issues its final report in relation thereto on 5 November 2019. The final report contained no material issues.

In addition, the Bank is also regulated by the CMA due to it being a publicly traded company with shares listed on Boursa Kuwait and conducts some of the "Securities Activities" listed in the CMA bylaws.

## BANKING SYSTEM

As at 31 December 2020, the Kuwaiti banking sector comprised 23 banks, including five conventional banks, one specialised bank, five *Shari'a*-compliant local banks, branches of 11 international conventional banks and a branch of a Saudi Arabian *Shari'a*-compliant bank.

The Kuwait banking sector has experienced increased competition and diversification from the entry of international banks establishing branches in Kuwait, following the promulgation of Law No. 28 of 2004 amending certain provisions of Law No. 32 of 1968. As at 30 September 2020, the total assets of local banks in the Kuwaiti banking sector amounted to KD 72.5 billion and the total loans by such banks to Kuwaiti residents amounted to KD 40.0 billion (*source*: CBK).

The key performance indicators of the major Kuwaiti banks for the nine months ended 30 September 2020 are set out below (*source*: interim financial statements and investor materials published on the company website of each bank listed below).

| | **Cost to income ratio** | **Growth in total assets**[(1)] | **Growth in customer deposits**[(2)] | **Return on assets**[(3)] | **Return on equity**[(4)] | **Earnings per share** |
|---|---|---|---|---|---|---|
| | | | *(%)* | | | *(fils)* |
| Ahli United Bank (K.S.C.P) ................ | 28.6 | (0.8) | 2.8 | 1.4 | 12.7 | —[(5)] |
| Al-Ahli Bank of Kuwait (K.S.C.P)....... | 48.5 | 2.9 | 0.2 | —[(5)] | (3.4) | (9) |
| **The Group** | 43.0 | 18.4 | 16.5 | 0.5 | 4.8 | 6.8 |
| Burgan Bank (K.P.S.C) ....................... | 39.0 | (2.0) | 13.1 | —[(5)] | 4.6 | 10.1 |
| Commercial Bank of Kuwait (K.S.C.).. | 28.0 | (7.4) | (0.4) | —[(5)] | —[(5)] | 8.9 |
| Gulf Bank (K.S.C.P)........................... | 36.0 | (5.0) | 0.5 | 0.4 | 4.3 | 6 |
| National Bank of Kuwait (S.A.K.P) ..... | 25.8 | (0.4) | (19.2) | 0.8 | 6.6 | 23 |
| Kuwait International Bank (K.S.C) ...... | 34.2 | (0.1) | 7.3 | —[(5)] | —[(5)] | (2) |
| Kuwait Finance House (K.S.C) ........... | 35.5 | 8.1 | 9.1 | 0.9 | 6.9 | 13.3 |
| Warba Bank (K.S.C)............................ | 40.1 | 12.8 | 38.3 | (0.4) | (10.4) | (10.4) |

Notes:

(1) Growth in total assets as at 30 September 2020 minus total assets as at 31 December 2019 divided by total assets as at 31 December 2019.

(2) Growth in customer deposits as at 30 September 2020 minus customer deposits as at 31 December 2019 divided by customer deposits as at 31 December 2019. Customer deposits do not include interbank deposits.

(3) Referred to as "Return on Average Assets" or "Return on Assets" within investor materials of the above mentioned banks.

(4) Referred to as "Return on Average Equity" or "Return on Equity" within investor materials of the above mentioned banks.

(5) As at the date of this Prospectus, this information is not publicly available.

## FINANCIAL STABILITY LAW AND DEPOSIT GUARANTEE LAW

In response to the global financial crisis, which began in 2008, the Government took a number of measures, including the passing of Decree No. 2 of 2009 (the "**Financial Stability Law**"). The Financial Stability Law sought to stabilise the financial sector in Kuwait and other economic sectors so as to encourage the financing of such sectors by local banks.

As a further measure, the Government passed Law No. 30 of 2008 regarding the guarantee of deposits held with local banks (the "**Deposit Guarantee Law**"). Under the Deposit Guarantee Law, the Government has undertaken to guarantee the principal (but not interest or profit) of all deposits held with local banks in Kuwait, including savings accounts and current accounts.

# SUMMARY OF THE PRINCIPAL TRANSACTION DOCUMENTS

*The following is a summary of certain provisions of the principal Transaction Documents and is qualified in its entirety by reference to the detailed provisions of the principal Transaction Documents. Copies of the Transaction Documents will be available for inspection at the offices of the Principal Paying Agent (as defined in the Conditions).*

## Declaration of Trust

The Declaration of Trust will be entered into on the Issue Date between the Bank, the Trustee and the Delegate and will be governed by English law.

Pursuant to the Declaration of Trust, the Trustee will declare a trust for the benefit of the Certificateholders over the Trust Assets.

The Trust Assets will comprise (i) the cash proceeds of the issuance of the Certificates pending application thereof in accordance with the terms of the Transaction Documents; (ii) all of the Trustee's rights, title, interest and benefit, present and future, in, to and under the assets from time to time constituting the Mudaraba Assets; (iii) all of the Trustee's rights, title, interest and benefit, present and future, in, to and under the Transaction Documents (other than in relation to any representations given by the Bank (acting in any capacity) pursuant to any of the Transaction Documents and the covenant to indemnify the Trustee given by the Bank pursuant to the Declaration of Trust); and (iv) all amounts standing to the credit of the Transaction Account from time to time, and all proceeds of the foregoing.

The Declaration of Trust shall provide that the rights of recourse in respect of Certificates shall be limited to the amounts from time to time available therefor from the Trust Assets, subject to the priority of payments set out in Condition 5.3 (*The Trust*). After enforcing or realising the Trust Assets and distributing the net proceeds of the Trust Assets in accordance with the Declaration of Trust, the obligations of the Trustee in respect of the Certificates shall be satisfied and no Certificateholder may take any further steps against the Trustee (or any steps against the Delegate) or any other person to recover any further sums in respect of the Certificates and the right to receive any such sums unpaid shall be extinguished.

Pursuant to the Declaration of Trust, the Trustee will, *inter alia*:

(a) hold the Trust Assets on trust absolutely for and on behalf of the Certificateholders *pro rata* according to the face amount of Certificates held by each Certificateholder in accordance with the provisions of the Declaration of Trust and the Conditions; and

(b) act as trustee in respect of the Trust Assets, distribute the income from the Trust Assets and perform its duties in accordance with the provisions of the Declaration of Trust and the Conditions.

In the Declaration of Trust, the Trustee shall irrevocably and unconditionally appoint the Delegate to be its delegate and attorney and in its name, on its behalf and as its act and deed, to execute, deliver and perfect all documents, and to exercise all of the present and future powers (including the power to sub-delegate), trusts, rights, authorities (including but not limited to the authority to request directions from any Certificateholders and the power to make any determinations to be made under the Transaction Documents) and discretions vested in the Trustee by the relevant provisions of the Declaration of Trust that the Delegate may consider to be necessary or desirable in order to, upon the occurrence of a Dissolution Event or a Potential Dissolution Event, and subject to its being indemnified and/or secured and/or pre-funded to its satisfaction, (i) exercise all of the rights and have all the protections of the Trustee under the Mudaraba Agreement and any of the other Transaction Documents, (ii) take such other steps as the Delegate may consider necessary to recover amounts due to Certificateholders and (iii) make such distributions from the Trust Assets as the Trustee is bound to make in accordance with the Declaration of Trust (together the "**Delegation of the Relevant**

**Powers**"), provided that: (a) no obligations, duties, liabilities or covenants of the Trustee pursuant to the Declaration of Trust or any other Transaction Document shall be imposed on the Delegate by virtue of the Delegation of the Relevant Powers; (b) in no circumstances will such Delegation of the Relevant Powers result in the Delegate holding on trust the Trust Assets; and (c) such Delegation of the Relevant Powers shall not include any duty, power, trust, right, authority or discretion to dissolve the trusts constituted by the Declaration of Trust following the occurrence of a Dissolution Event or Potential Dissolution Event or to determine the remuneration of the Delegate. The appointment of such delegate by the Trustee is intended to be in the interests of the Certificateholders and, subject to certain provisions of the Declaration of Trust, shall not affect the Trustee's continuing role and obligations as trustee. Pursuant to the Declaration of Trust:

(a) upon the occurrence of a Bank Event and the delivery of a Dissolution Notice by the Delegate to the Trustee, to the extent that the amounts payable in respect of the Certificates have not been paid in full pursuant to Condition 12.1 (*Bank Events*), the Delegate may at its discretion (acting on behalf of Certificateholders) or shall, if so directed by an Extraordinary Resolution of the Certificateholders or if so requested in writing by Certificateholders holding at least one-fifth of the then aggregate face amount of the Certificates outstanding, and subject to its being indemnified and/or secured and/or prefunded to its satisfaction take one or more of the following steps: (i) institute any steps, actions or proceedings for the winding-up of the Bank and/or (ii) prove in the winding-up of the Bank and/or (iii) institute steps, actions or proceedings for the bankruptcy of the Bank; and/or (iv) claim in the liquidation of the Bank and/or (v) take such other steps, actions or proceedings which, under the laws of Kuwait, have an analogous effect to the actions referred to in (i) to (iv) above, in each case for (subject to the provisos contained in Condition 12.3(a) (*Proceedings for Winding-up*)) all amounts of Mudaraba Capital, Rab-al-Maal Mudaraba Profit, Rab-al-Maal Final Mudaraba Profit and/or other amounts due to the Trustee on termination of the Mudaraba Agreement in accordance with its terms and the terms of the other Transaction Documents; and

(b) without prejudice to Conditions 12.1 (*Bank Events*) and 12.3 (*Winding-up, dissolution or liquidation*) and the provisions of clause 17 (*Enforcement of Rights*) of the Declaration of Trust, the Trustee (or the Delegate) may at its discretion and the Delegate shall, if so directed by an Extraordinary Resolution of the Certificateholders or if so requested in writing by Certificateholders holding at least one-fifth of the then aggregate face amount of the Certificates outstanding and without further notice (subject in each case to Condition 12.3(e)(i) (*Realisation of Trust Assets*)) institute such steps, actions or proceedings against the Bank and/or the Trustee, as it may think fit to enforce any term or condition binding on the Bank or the Trustee (as the case may be) under the Certificates and the Transaction Documents (other than any payment obligation of the Bank under or arising from the Transaction Documents, including, without limitation, payment of any principal or premium or satisfaction of any payments in respect of the Transaction Documents, including any damages awarded for breach of any obligations) including, without limitation, any failure by the Bank to procure the substitution of the Trustee in the circumstances described in Condition 12.2 (*Trustee Events*). However, in no event shall the Bank, by virtue of the institution of any such steps, actions or proceedings, be obliged to pay any sum or sums, in cash or otherwise, sooner than the same would otherwise have been payable by it in accordance with the Transaction Documents.

A Transaction Account will be established in London in the name of the Trustee. Monies received in the Transaction Account will, *inter alia*, comprise payments of amounts payable under the Mudaraba Agreement immediately prior to each Periodic Distribution Date (see "*—Mudaraba Agreement*" below). The Declaration of Trust shall provide that all monies credited to the Transaction Account from time to time will be applied in the order of priority set out in Condition 5.3 (*The Trust*).

### Mudaraba Agreement

The Mudaraba Agreement will be entered into on or before the Issue Date between the Bank (as the Mudareb) and Boubyan Tier 1 Sukuk Limited (as Trustee and Rab-al-Maal) and will be governed by English law.

The Mudaraba will commence on the date of payment of the Mudaraba Capital to the Mudareb and will end on (i) the date on which the Certificates are redeemed in whole but not in part in accordance with the Conditions following the liquidation of the Mudaraba in accordance with the terms of the Mudaraba Agreement (the "**Mudaraba End Date**") or (ii) if earlier, and in the case of a Write-down in whole only, on the Non-Viability Event Write-down Date.

Pursuant to the Mudaraba Agreement the proceeds of the issue of the Certificates will be contributed by the Rab-al-Maal to the Mudareb and shall form the Mudaraba Capital. The Mudaraba Capital shall be invested by the Bank (as Mudareb), on an unrestricted co-mingling basis, in its general business activities carried out through the General Mudaraba Pool in accordance with the investment plan prepared by the Mudareb and scheduled to the Mudaraba Agreement (the "**Investment Plan**"). The Mudareb will acknowledge and agree in the Mudaraba Agreement that the Investment Plan was prepared by it with due skill, care and attention, and acknowledge that the Trustee has entered into the Mudaraba in reliance on the Investment Plan. The General Mudaraba Pool does not include any other investment pool maintained by the Bank.

The Mudareb is expressly authorised to co-mingle the Mudaraba Capital with its shareholders' equity and such amounts may be co-mingled in its general business activities carried out through the General Mudaraba Pool, provided that prior to the calculation of any Mudaraba Profit or Final Mudaraba Profit the Mudareb shall deduct a proportion of any profit earned (including, for the avoidance of doubt, any profit earned in respect of the proceeds of all current savings and investment deposit accounts forming part of the General Mudaraba Pool) for its own account.

The Mudaraba Agreement provides that the profit (if any) generated by the Mudaraba will be distributed by the Mudareb on each Mudaraba Profit Distribution Date on the basis of a constructive liquidation of the Mudaraba by the Mudareb in accordance with the following profit sharing ratio:

(a) the Trustee 99 per cent.; and

(b) the Mudareb 1 per cent.

If the Mudareb elects to make a payment of Mudaraba Profit, or Final Mudaraba Profit is otherwise payable pursuant to the Mudaraba Agreement, and if the Trustee's share of the Mudaraba Profit (the "**Rab-al-Maal Mudaraba Profit**") or the Trustee's share of the Final Mudaraba Profit (the "**Rab-al-Maal Final Mudaraba Profit**") (as applicable) payable to the Trustee is (i) greater than the then applicable Periodic Distribution Amount, the amount of any excess shall be credited to a reserve account (the "**Mudaraba Reserve**") and the Rab-al-Maal Mudaraba Profit or the Rab-al-Maal Final Mudaraba Profit (as applicable) payable to the Trustee will be reduced accordingly; or (ii) is less than the then applicable Periodic Distribution Amount, the Mudareb shall first utilise any amount available in the Mudaraba Reserve (after re-crediting amounts to it in accordance with the terms of the Mudaraba Agreement if there is any such shortfall) and, if a shortfall still exists following such re-credit, it may (at its sole discretion) elect (but shall not be obliged) to make one or more payments from its own cash resources in order to cover such shortfall (the aggregate of such amounts used to cover such shortfall and not yet recovered by the Mudareb being the "**Shortfall Cover Amount**").

The Mudareb shall be entitled to deduct amounts standing to the credit of the Mudaraba Reserve (at its sole discretion) at any time prior to the Mudaraba End Date and to use such amounts for its own purposes provided that such amounts shall be repaid by it to the Mudaraba Reserve if so required to fund a shortfall.

If the Mudareb makes a Non-Payment Election or a Non-Payment Event occurs, then the Mudareb shall give notice to the Trustee, the Principal Paying Agent, the Delegate and the Certificateholders, in each case providing details of such Non-Payment Election or Non-Payment Event in accordance with the notice periods set out in the Mudaraba Agreement. The Trustee shall have no claim in respect of any Rab-al-Maal Mudaraba Profit or Rab-al-Maal Final Mudaraba Profit not paid as a result of either a Non-Payment Event or (in the case of any Rab-al-Maal Mudaraba Profit only) a Non-Payment Election and such non-payment in whole or in part, as applicable, in such circumstance will not constitute a Dissolution Event. If any amount of Rab-al-Maal Mudaraba Profit or Rab-al-Maal Final Mudaraba Profit is not paid as a consequence of a Non-Payment Election or a Non-Payment Event, then from the date of such Non-Payment Election or Non-Payment Event (the "**Dividend Stopper Date**"), the Mudareb shall be prohibited from declaring or paying certain distributions or dividends, declaring or paying profit or other distributions on certain of its securities, or redeeming, purchasing, cancelling, reducing or otherwise acquiring certain of its share capital and securities, in each case unless or until (i) two consecutive payments of Rab-al-Maal Mudaraba Profit or, (ii) as the case may be, Rab-al-Maal Final Mudaraba Profit, in each case following a Dividend Stopper Date, have been made in full to the Trustee following such Non-Payment Election or Non-Payment Event (or an amount equal to that amount has been duly set aside or provided for in full for the benefit of the Trustee).

Subject to certain conditions as set out in the Mudaraba Agreement, the Bank (as Mudareb) may (in its sole discretion) liquidate the Mudaraba in whole, but not in part, on the basis of a final constructive liquidation of the Mudaraba in the following circumstances:

(a) on the First Call Date and on any date thereafter up to and including the First Reset Date, or any Periodic Distribution Date thereafter, by giving not less than 20 nor more than 35 days' prior notice to the Trustee; or

(b) on any date, on or after the Issue Date (whether or not a Periodic Distribution Date), by giving not less than 20 nor more than 35 days' prior notice to the Trustee:

    (i) upon the occurrence of a Tax Event; or

    (ii) upon the occurrence of a Capital Event.

If the Mudareb were to exercise its option to liquidate in accordance with paragraph (a) or (b) above and the proceeds to be returned to the Trustee which would be generated upon such liquidation are less than the Required Liquidation Amount, the Mudareb shall either continue investing the Mudaraba Capital in the Mudaraba, and accordingly no distribution of the liquidation proceeds shall occur, or shall, if it were to proceed with such final constructive liquidation, indemnify the Trustee in respect of such shortfall and shall pay an amount equal to the Required Liquidation Amount to the Trustee in which case there shall be a final constructive liquidation of the Mudaraba. The "**Required Liquidation Amount**" means: (a) the Mudaraba Capital and, in the case of a final liquidation following the occurrence of a Capital Event pursuant to paragraph (b)(ii) above only and prior to the First Call Date, the Capital Event Profit Amount (being an amount equal to one per cent. of the Mudaraba Capital on the date of such liquidation); (b) Subject to a Non-Payment Event not having occurred and being continuing and provided that a Non-Payment Event will not occur as a result of such payments, the Rab-Al-Maal Final Mudaraba Profit (being an amount equal to the Periodic Distribution Amount payable on the redemption of the Certificates in full); and (c) the Shortfall Cover Amount (if any).

Under the terms of the Mudaraba Agreement, the Mudaraba will mandatorily be liquidated in whole but not in part if a Bank Event occurs and a Dissolution Notice is delivered pursuant to Condition 12.1 (*Bank Events*). The Mudareb acknowledges under the Mudaraba Agreement that the Trustee shall in such case be entitled to claim for all amounts due in accordance with the terms of the Mudaraba Agreement in such winding-up, bankruptcy, dissolution or liquidation (or analogous event) subject to certain conditions being satisfied.

The Mudaraba Agreement also provides that if a Non-Viability Event occurs, a Write-down (in whole or in part, as applicable) will take place. In such circumstances, in the case of a Write-down in whole only, the Mudaraba Agreement will be automatically terminated (and the Trustee shall not be entitled to any claim for any amounts in connection with the Mudaraba Assets) and in the case of a Write-down in part only, the Mudaraba Capital shall be reduced in proportion to the face amount of the Certificates that are to be written-down and the Certificateholders' rights to the Trust Assets shall automatically be deemed to be irrevocably and unconditionally written-down in the same manner as the Certificates.

The Bank (as Mudareb) and the Trustee undertake in the Mudaraba Agreement, in circumstances where the Certificates are required by the Bank to be varied upon the occurrence of a Tax Event or a Capital Event pursuant to the Conditions, to make such variations to the Mudaraba Agreement as are necessary to ensure that the Certificates become or, as appropriate, remain Qualifying Tier 1 Instruments.

The Mudareb shall not be responsible for any losses to the Mudaraba Capital suffered by the Trustee unless such losses are caused by the Mudareb's (i) breach of the Mudaraba Agreement or (ii) gross negligence, wilful misconduct or fraud.

The Mudareb shall exercise its rights, powers and discretions under the Mudaraba Agreement and shall take such action as it deems appropriate, in each case, in accordance with material applicable laws, with the degree of skill and care that it would exercise in respect of its own assets and in a manner that is not repugnant to *Shari'a*.

Other than its share of profit from the Mudaraba and any incentive fee payable in accordance with the Mudaraba Agreement, the Mudareb shall not be entitled to receive any remuneration from the Mudaraba.

The Mudareb will agree in the Mudaraba Agreement that all payments by it under the Mudaraba Agreement will be made free and clear of, and without any withholding or deduction for, or on account of, Taxes, unless such withholding or deduction is required by law, and provide for the payment of Additional Amounts so that the net amounts received by the Certificateholders shall equal the respective amounts that would have been received in the absence of such withholding or deduction. Any taxes incurred in connection with the operation of the Mudaraba (including in connection with any transfer, sale or disposal of any Mudaraba Asset during the Mudaraba Term), but excluding the Mudareb's obligations (if any) to pay any Taxes and/or Additional Amounts, will be borne by the Mudaraba itself.

## Agency Agreement

The Agency Agreement will be entered into on the Issue Date between the Trustee, the Bank, the Delegate, the Principal Paying Agent, the Calculation Agent, the Registrar and the Transfer Agent.

Pursuant to the Agency Agreement, the Registrar has agreed to be appointed as agent of the Trustee and has agreed, amongst other things, to authenticate (or procure the authentication of) and deliver the Global Certificate and, if any, each Definitive Certificate; the Principal Paying Agent has agreed to be appointed as agent of the Trustee and has agreed, amongst other things, to pay amounts due in respect of the Certificates on behalf of the Trustee; the Calculation Agent has agreed to be appointed as agent of the Trustee and has agreed, amongst other things, to calculate the Profit Rate in respect of each Reset Period commencing on the relevant Reset Date, subject to and in accordance with the Conditions; and the Transfer Agent has agreed to be appointed as agent of the Trustee and has agreed, amongst other things, to effect requests to transfer and issue Definitive Certificates.

On the Issue Date, the Registrar will (i) authenticate (or procure the authentication of) the Global Certificate in accordance with the terms of the Declaration of Trust; and (ii) deliver the Global Certificate to the Common Depositary.

The Trustee shall cause to be deposited into the Transaction Account opened by the Trustee with the Principal Paying Agent, in same day freely transferable, cleared funds, any payment which may be due under the Certificates in accordance with the Transaction Documents.

The Principal Paying Agent agrees that it shall, on each Periodic Distribution Date and on the date fixed for payment of the Dissolution Distribution Amount, or any earlier date specified for the liquidation of the Mudaraba, apply the monies standing to the credit of the Transaction Account in accordance with the order of priority set out in Condition 5.3 (*The Trust*).

***Shari'a* Compliance**

Each Transaction Document will provide that each of Boubyan Tier 1 Sukuk Limited and Boubyan Bank K.S.C.P. agrees that it has accepted the *Shari'a* compliant nature of the Transaction Documents to which it is a party and, to the extent permitted by law, further agrees that:

(a) it shall not claim that any of its obligations under the Transaction Documents to which it is a party (or any provision thereof) are *ultra vires* or not compliant with the principles of *Shari'a*;

(b) it shall not take any steps or bring any proceedings in any forum to challenge the *Shari'a* compliance of the Transaction Documents to which it is a party; and

(c) none of its obligations under the Transaction Documents to which it is a party shall in any way be diminished, abrogated, impaired, invalidated or otherwise adversely affected by any finding, declaration, pronouncement, order or judgment of any court, tribunal or other body that the Transaction Documents to which it is a party are not compliant with the principles of *Shari'a*.

# TAXATION

*The following is a general description of certain Cayman Islands, Kuwait, European Union and United States tax considerations relating to the Certificates. It does not purport to be a complete analysis of all tax considerations relating to the Certificates, whether in those jurisdictions or elsewhere. Prospective purchasers of Certificates should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of Certificates and receiving payments under the Certificates and the consequences of such actions under the tax laws of those countries. This summary is based upon the law as in effect on the date of this Prospectus and is subject to any change in law that may take effect after such date.*

## Cayman Islands

*The following is a discussion of certain Cayman Islands income tax consequences of an investment in the Certificates. The discussion is a general summary of present law, which is subject to prospective and retroactive change. It is not intended as tax advice, does not consider any investor's particular circumstances and does not consider tax consequences other than those arising under Cayman Islands law.*

Under existing Cayman Islands laws, payments on the Certificates will not be subject to taxation in the Cayman Islands and no withholding will be required on the payments to any holder of the Certificates, nor will gains derived from the disposal of the Certificates be subject to Cayman Islands income or corporation tax. The Cayman Islands currently have no income, corporation or capital gains tax and no estate duty, inheritance or gift tax.

The Trustee has received an undertaking from the Governor in Cabinet of the Cayman Islands, pursuant to the Tax Concessions Act (as revised) of the Cayman Islands, that for a period of 20 years from 27 October 2020 no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Trustee or its operations and, in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable on or in respect of the shares, debentures or other obligations (which includes the Certificates) of the Trustee or by way of the withholding in whole or part of any relevant payment as defined in the Tax Concessions Act (as revised). No capital or stamp duties are levied in the Cayman Islands on the issue or redemption of Certificates. However, an instrument transferring title to any Certificates, if brought to or executed in the Cayman Islands, would be subject to Cayman Islands stamp duty. An annual registration fee is payable by the Trustee to the Cayman Islands Registrar of Companies which is calculated by reference to the nominal amount of its authorised capital. At current rates, this annual registration fee is U.S.$853.66. The foregoing is based on current law and practice in the Cayman Islands and this is subject to change therein.

## Kuwait

*The following summary of taxation in Kuwait is based on the Kuwait Income Tax Decree No. 3 of 1955, as amended by Law No. 2 of 2008 "Amending Certain Provisions of Kuwait Income Tax Decree No. 3 of 1955"(the "**Amendment**"), the Executive Bylaws of the Amendment (the "**Regulations**") and various ministerial resolutions and circulars relating thereto issued by the Kuwait Ministry of Finance (the "**MOF**") and the Administrative Resolution (together, the "**Taxation Laws**") as interpreted and implemented by the DIT as at the date of this Prospectus. Any subsequent changes in either the Taxation Laws or the interpretation or implementation of the same by the DIT would alter and affect this summary.*

### *Income tax*

Under the Taxation Laws, income tax (at a flat rate of 15 per cent.) is levied on, *inter alia*, the net income and capital gains realised by any corporate entity (interpreted by the DIT to mean any form of company or partnership), wherever incorporated, that conducts business in Kuwait. However, the DIT to date has granted a concession to such corporate entities incorporated in Kuwait or in any other GCC country (being referred to in this Prospectus as "**GCC corporate entities**") and has only imposed income tax on corporate entities which are not GCC corporate entities (being referred to in this Prospectus as "**non-GCC corporate entities**") which, for the avoidance of doubt, include shareholders of GCC corporate entities which are themselves non-GCC corporate entities, in each case, conducting business in Kuwait. The following paragraphs in this section are therefore applicable only to non-GCC corporate entities.

Pursuant to Article 150 (bis), yields of securities, bonds, finance sukuk and all other similar securities regardless of the issuer thereof shall be exempted from taxation. Article 150 (bis) was acknowledged by the Administrative Resolution.

However, see "*Risk Factors – Risk Factors Relating to Taxation – The application and enforcement of the Kuwaiti income tax regime is uncertain, and holders of the Certificates which are "non–GCC corporate entities" may become subject to the Kuwaiti income tax regime in certain limited circumstances*".

Individuals are not subject to any Kuwaiti income tax on their income or capital gains.

### *Retention*

Under the Regulations, a Kuwaiti-based party making a payment (being referred to in this section as the payer) to any other party (being referred to in this section as the payee), wherever incorporated, is obliged to deduct five per cent. of the amount of each such payment until such time as the DIT issues a tax clearance certificate approving the release of such amount. Unlike with withholding tax, the payer is not required to transfer directly the deducted amount to the DIT immediately, but instead retains such amount and releases it either (i) to the payee upon presentation to the payer by such payee of a tax clearance certificate from the DIT confirming that the payee is not subject to or is exempt from income tax, or has realised a loss, or has paid or guaranteed the payment of its income tax; or (ii) in the absence of such a tax clearance certificate, to the DIT, on demand.

According to a literal interpretation of the Regulations, payments which are subject to a deduction as described above would include payments by the Bank to the Trustee under the Transaction Documents to which it is a party. Given that neither Article 150 (bis) nor the Administrative Resolution address the issue of whether or not there remains an obligation, as described above, to make a deduction, a payer (such as the Bank) could be required to deduct five per cent. from every payment made by it to a payee (such as the Trustee), which amount would be released by the payer upon presentation to it by the payee of a tax clearance certificate from the DIT.

However, the Trustee shall be able to rely on the provisions in the Mudaraba Agreement, which require the Mudareb to gross up each payment by an amount equal to any deduction, irrespective of whether a tax clearance certificate is presented or not.

### *Other taxes*

Save as described above, all payments in respect of the Certificates and the Mudaraba Agreement may be made without withholding, deduction or retention for, or on account of, present taxes, duties, assessments or governmental charges of whatsoever nature imposed or levied by or on behalf of Kuwait.

No stamp, registration or similar duties or taxes will be payable in Kuwait by holders of Certificates in connection with the issue or any transfer of the Certificates.

## The Proposed Financial Transactions Tax (the "FTT")

On 14 February 2013, the European Commission published a proposal (the "**Commission's Proposal**") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**"). However, Estonia has since stated that it will not participate.

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in Certificates (including secondary market transactions) in certain circumstances. Primary market transactions referred to in Article 5(c) of Regulation (EC) No. 1287/2006 are expected to be exempt.

Under the Commission's Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in Certificates where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including: (a) by transacting with a person established in a participating Member State; or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between the participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of Certificates are advised to seek their own professional advice in relation to the FTT.

### Foreign Account Tax Compliance Act

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as "**FATCA**", a foreign financial institution may be required to withhold on certain payments it makes ("**foreign passthru payments**") to persons that fail to meet certain certification, reporting, or related requirements. The Trustee may be a foreign financial institution for these purposes. A number of jurisdictions (including the Cayman Islands) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("**IGAs**"), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Certificates, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Certificates, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Certificates, proposed regulations have been issued that provide that such withholding would not apply prior to the date that is two years after the date on which final regulations defining foreign passthru payments are published in the U.S. Federal Register. In the preamble to the proposed regulations, the U.S. Treasury Department indicated that taxpayers may rely on these proposed regulations until the issuance of final regulations. Additionally Certificates characterised as debt (or which are not otherwise characterised as equity and have a fixed term) for U.S. federal tax purposes that are issued on or prior to the date that is six months after the date on which final regulations defining foreign passthru payments are filed with the U.S. Federal Register generally would be grandfathered for purposes of FATCA withholding unless materially modified after such date.

Certificateholders should consult their own tax advisers regarding how these rules may apply to their investment in the Certificates. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Certificates, no person will be required to pay additional amounts as a result of the withholding.

## SUBSCRIPTION AND SALE

The Joint Lead Managers, the Trustee and the Bank have, in a subscription agreement (the "**Subscription Agreement**") dated 29 March 2021, agreed that the Trustee will sell to the Joint Lead Managers U.S.$500,000,000 in aggregate face amount of the Certificates and, subject to certain conditions, the Joint Lead Managers have jointly and severally agreed to subscribe for the Certificates.

In accordance with the terms of the Subscription Agreement, each of the Trustee and the Bank has agreed to reimburse the Joint Lead Managers for certain of their expenses in connection with the Certificates and to indemnify the Joint Lead Managers against certain liabilities incurred by them in connection therewith.

### General

Each Joint Lead Manager has agreed that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it offers or sells any Certificates or possesses or distributes this Prospectus and neither the Trustee, the Bank nor any of the other Joint Lead Managers shall have any responsibility therefor.

Neither the Trustee, the Bank nor any of the Joint Lead Managers represents that (i) Certificates may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale or (ii) any action has been, or will be, taken in any jurisdiction that would permit a public offering of any Certificates, or possession or distribution of this Prospectus or any other offering material, in any country or jurisdiction where action for that purpose is required.

### United States

The Certificates have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons, except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

Each Joint Lead Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer or sell the Certificates (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering of the Certificates and the closing date, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells Certificates during the distribution compliance period a confirmation or other notice setting out the restrictions on offers and sales of the Certificates within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S.

The Certificates are being offered and sold outside the United States to non-U.S. persons in reliance on Regulation S.

In addition, until 40 days after the commencement of the offering of the Certificates, an offer or sale of Certificates within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

### Prohibition of Sales to EEA Retail Investors

Each Joint Lead Manager has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Certificates to any retail investor in the EEA. For the purposes of this provision the expression "**retail investor**" means a person who is one (or more) of the following:

(i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or

(ii) a customer within the meaning of the Insurance Distribution Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

**Prohibition of Sales to UK Retail Investors**

Each Joint Lead Manager has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Certificates to any retail investor in the UK. For the purposes of this provision the expression "**retail investor**" means a person who is one (or more) of the following:

(i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the EUWA; or

(ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA.

**United Kingdom**

Each Joint Lead Manager has represented and agreed that:

(i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Certificates in circumstances in which Section 21(1) of the FSMA does not apply to the Trustee or the Bank; and

(ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Certificates in, from or otherwise involving the UK.

**Cayman Islands**

Each Joint Lead Manager has represented and agreed that no invitation or offer, whether directly or indirectly, to subscribe for the Certificates has been or will be made to the public in the Cayman Islands.

**United Arab Emirates (excluding the Dubai International Financial Centre)**

Each Joint Lead Manager has represented and agreed that the Certificates have not been and will not be offered, sold or publicly promoted or advertised by it in the UAE other than in compliance with any laws applicable in the UAE governing the issue, offering and sale of securities.

**Dubai International Financial Centre**

Each Joint Lead Manager has represented and agreed that it has not offered and will not offer the Certificates to any person in the Dubai International Financial Centre unless such offer is:

(i) an "Exempt Offer" in accordance with the Markets Rules (MKT) Module of the Dubai Financial Services Authority rulebook (the "**DFSA Rulebook**"); and

(ii) made only to persons who meet the "Professional Client" criteria set out in Rule 2.3.3 of the Conduct of Business Module of the DFSA Rulebook.

**State of Kuwait**

Each Joint Lead Manager has represented and agreed that the Certificates have not been and will not be offered, marketed and/or sold by it in Kuwait, except through a licensed person duly authorised to undertake such activity pursuant to Law No. 7 of 2010 Concerning the Establishment of the Capital Markets Authority and Regulating of Securities Activities and its executive bylaws (each as amended) (the "**CML Rules**") and unless all necessary approvals from the CMA pursuant to the CML Rules, together with the various resolutions, regulations, directives and instructions issued pursuant thereto or in connection therewith (regardless of nomenclature or type), or any other applicable law or regulation in Kuwait, have been given in respect of the offering, marketing and/or sale of the Certificates.

### Kingdom of Bahrain

Each Joint Lead Manager has represented and agreed that it has not offered or sold, and will not offer or sell, any Certificates, except on a private placement basis, to persons in Bahrain who are "accredited investors".

For this purpose, an "**accredited investor**" means:

(i) an individual holding financial assets (either singly or jointly with a spouse) of U.S.$1,000,000 or more excluding that person's principal place of residence;

(ii) a company, partnership, trust or other commercial undertaking which has financial assets available for investment of not less than U.S.$1,000,000; or

(iii) a government, supranational organisation, central bank or other national monetary authority or a state organisation whose main activity is to invest in financial instruments (such as a state pension fund).

### Kingdom of Saudi Arabia

No action has been or will be taken in Saudi Arabia that would permit a public offering of the Certificates. Any investor in Saudi Arabia or who is a Saudi person (a "**Saudi Investor**") who acquires any Certificates pursuant to an offering should note that the offer of Certificates is a private placement under Article 9 or Article 10 of the Rules on the Offer of Securities and Continuing Obligations as issued by the Board of the Capital Market Authority resolution number 3-123-2017 dated 27 December 2017, as amended by the Board of the Capital Market Authority resolution number 1-104-2019 dated 30 September 2019 (the "**KSA Regulations**"), made through an authorised person licensed to carry out arranging activities by the Capital Market Authority and following a notification to the Capital Market Authority under Article 11 of the KSA Regulations.

The Certificates may thus not be advertised, offered or sold to any person in Saudi Arabia other than to "Sophisticated Investors" under Article 9 of the KSA Regulations or by way of a limited offer under Article 10 of the KSA Regulations.

Each Joint Lead Manager has represented and agreed that any offer of Certificates made by it to a Saudi Investor will be made in compliance with the KSA Regulations.

Each offer of Certificates shall not therefore constitute a "public offer", an "exempt offer" or a "parallel market offer" pursuant to the KSA Regulations, but is subject to the restrictions on secondary market activity under Article 15 of the KSA Regulations. Any Saudi Investor who has acquired Certificates pursuant to a private placement under Article 9 or Article 10 of the KSA Regulations may not offer or sell those Certificates to any person unless the offer or sale is made through an authorised person appropriately licensed by the Capital Market Authority and: (i) the Certificates are offered or sold to a Sophisticated Investor (as defined in Article 9 of the KSA Regulations); (ii) the price to be paid for the Certificates in any one transaction is equal to or exceeds Saudi Riyal 1 million or an equivalent amount; or (iii) the offer or sale is otherwise in compliance with Article 15 of the KSA Regulations.

## State of Qatar (including the Qatar Financial Centre)

Each Joint Lead Manager has represented and agreed that it has not offered, sold or delivered, and will not offer, sell or deliver, directly or indirectly, any Certificates in the State of Qatar (including the Qatar Financial Centre), except: (a) in compliance with all applicable laws and regulations of the State of Qatar (including the Qatar Financial Centre); and (b) through persons or corporate entities authorised and licensed to provide investment advice and/or engage in brokerage activity and/or trade in respect of foreign securities in the State of Qatar (including the Qatar Financial Centre).

## Japan

The Certificates have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the "**FIEA**"). Accordingly, each Joint Lead Manager has represented and agreed that it has not, directly or indirectly, offered or sold, and will not offer or sell any Certificates, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other laws and regulations of Japan.

## Hong Kong

Each Joint Lead Manager has represented and agreed that:

(i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Certificates, except for Certificates which are a "structured product" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "**SFO**") other than (a) to "professional investors" as defined in the SFO and any rules made under the SFO; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the "**Companies Ordinance**") or which do not constitute an offer to the public within the meaning of the Companies Ordinance; and

(ii) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, in each case whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Certificates, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Certificates which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under the SFO.

## Malaysia

Each Joint Lead Manager has represented and agreed that:

(i) this Prospectus has not been registered as a prospectus with the Securities Commission of Malaysia under the Capital Markets and Services Act 2007 of Malaysia (the "**CMSA**"); and

(ii) accordingly, the Certificates have not been and will not be offered or sold, and no invitation to subscribe for or purchase the Certificates has been or will be made, directly or indirectly, nor may any document or other material in connection therewith be distributed in Malaysia, other than to persons falling within any one of the categories of persons specified under Part I of Schedule 6 or Section 229(1)(b) and Part I of Schedule 7 or Section 230(1)(b), read together with Schedule 8 or Section 257(3) of the CMSA, subject to any law, order, regulation or official directive of the Central Bank of

Malaysia, the Securities Commission of Malaysia and/or any other regulatory authority from time to time.

Residents of Malaysia may be required to obtain relevant regulatory approvals including approval from the Controller of Foreign Exchange to purchase the Certificates. The onus is on the Malaysian residents concerned to obtain such regulatory approvals and none of the Joint Lead Managers is responsible for any invitation, offer, sale or purchase of the Certificates as aforesaid without the necessary approvals being in place.

## Singapore

This Prospectus has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. Each Joint Lead Manager has represented and agreed that it has not offered or sold any Certificates or caused such Certificates to be made the subject of an invitation for subscription or purchase and will not offer or sell such Certificates or cause such Certificates to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of such Certificates, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act, Chapter 289 of Singapore (as modified or amended from time to time, the "**SFA**")) pursuant to Section 274 of the SFA; (ii) to a relevant person (as defined in Section 275(2) of the SFA) under Section 275(1) of the SFA or to any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA; or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where Certificates are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(i) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(ii) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Certificates pursuant to an offer made under Section 275 of the SFA except:

(a) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(b) where no consideration is or will be given for the transfer;

(c) where the transfer is by operation of law;

(d) as specified in Section 276(7) of the SFA; or

(e) as specified in Regulation 37A of the Securities and Futures (Offer of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018 of Singapore.

*Singapore SFA Product Classification: In connection with Section 309B of the SFA and the CMP Regulations 2018, the Trustee has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Certificates are "prescribed capital markets products" (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).*

### Switzerland

The offering of the Certificates in Switzerland is exempt from the requirement to prepare and publish a prospectus under the Swiss Financial Services Act ("**FinSA**") because the Certificates (i) have a minimum denomination of CHF 100,000 (or equivalent in another currency) or more and (ii) will not be admitted to trading on any trading venue (exchange or multilateral trading facility) in Switzerland. This Prospectus does not constitute a prospectus pursuant to the FinSA, and no such prospectus has been or will be prepared for or in connection with the offering of the Certificates.

# GENERAL INFORMATION

## Listing

Application has been made to Euronext Dublin for the Certificates to be admitted to listing on the Official List and to trading on the Regulated Market. The Regulated Market is a regulated market for the purposes of MiFID II. It is expected that the listing of the Certificates on the Official List and admission of the Certificates to trading on the Regulated Market will be granted on or around the Issue Date. The total expenses related to the admission to trading are estimated at Euro 18,040.

Maples and Calder (Ireland) LLP is acting solely in its capacity as listing agent for the Trustee in relation to the Certificates and is not itself seeking admission of the Certificates to the Official List or to trading on the Regulated Market.

## Legal Entity Identifier

The legal entity identifier ("**LEI**") of the Trustee is 549300Z4Q7ROZ0OUJO40.

The LEI of the Bank is 254900D1UAYOAUPGL280.

## Authorisation

The issue of the Certificates has been duly authorised by a resolution of the Board of Directors of the Trustee dated 4 March 2021. The Trustee has obtained all necessary consents, approvals and authorisations in connection with the issue of the Certificates and the entry into the Transaction Documents.

The entry by the Bank into the Transaction Documents was authorised by the directors of the Bank on 15 September 2020.

## Clearing Systems

The Certificates have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records) under common code 230640378 and ISIN XS2306403788.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg.

## Significant or Material Change

There has been no significant change in the financial performance or financial position of the Bank or the Group and no material adverse change in the prospects of the Bank or the Group, in each case since 31 December 2020.

There has been no significant change in the financial performance or financial position of the Trustee and no material adverse change in the prospects of the Trustee, in each case since the date of its incorporation.

## Litigation

Neither the Trustee nor the Bank nor any other member of the Group is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Trustee or the Bank is aware) in the 12 months preceding the date of this Prospectus which may have or has had in the recent past significant effects on the financial position or profitability of the Trustee, the Bank or the Group.

## Auditors

The auditors of the Bank are EY Kuwait and Deloitte Kuwait. The business address of EY Kuwait is P.O. Box 74, 18 – 21st Floor, Baitak Tower, Ahmed Al Jaber Street, Safat Square 13001, Kuwait and the business address of Deloitte Kuwait is Ahmed Al-Jaber Street, Sharq, Dar Al-Awadi Complex, Floors 7 & 9, P.O. Box 20174, Safat 13062, Kuwait. Each of EY Kuwait and Deloitte Kuwait is regulated in Kuwait by the CMA and is a registered auditor licensed to act as an auditor in Kuwait by the Kuwaiti Ministry of Commerce and Industry.

EY Kuwait and Deloitte Kuwait have audited, without qualification, each of the consolidated financial statements of the Bank as at and for the years ended 31 December 2020 and 31 December 2019 in accordance with the International Standards on Auditing, as stated in their reports incorporated by reference herein.

Since the date of its incorporation, no financial statements of the Trustee have been prepared. The Trustee is not required by Cayman Islands law, and does not intend, to publish audited financial statements.

## Documents Available

For as long as the Certificates remain outstanding, copies (and English translations where the documents in question are not in English) of the following documents will, when published, be available for inspection and/or collection from the registered office of the Trustee and the specified office of the Principal Paying Agent, and available online at https://boubyan.bankboubyan.com/en/explore-boubyan/investors-relations/:

(a) the Declaration of Trust;

(b) the constitutional documents of the Trustee and the Bank;

(c) the consolidated financial statements of the Bank as at and for the years ended 31 December 2020 and 31 December 2019, in each case, together with the audit reports thereon and the notes thereto;

(d) the most recently published consolidated financial statements of the Bank and interim condensed consolidated financial information of the Bank, in each case, together with any audit or review reports thereon and the notes thereto; and

(e) this Prospectus together with any supplement to this Prospectus.

This Prospectus will be published on the website of Euronext Dublin at https://www.ise.ie/.

## Cayman Islands Data Protection

The Cayman Islands Government enacted the Data Protection Act, 2017 of the Cayman Islands (the "**DPA**") on 18 May 2017 which was brought into force on 30 September 2019. The DPA introduces legal requirements for the Trustee based on internationally accepted principles of data privacy.

Prospective investors should note that, by virtue of making investments in the Certificates and the associated interactions with the Trustee and its affiliates and/or delegates, or by virtue of providing the Trustee with personal information on individuals connected with the investor (for example directors, trustees, employees, representatives, shareholders, investors, clients, beneficial owners or agents) such individuals may be providing the Trustee and its affiliates and/or delegates (including, without limitation, the Trustee Administrator) with certain personal information which constitutes personal data within the meaning of the DPA. The Trustee shall act as a data controller in respect of this personal data and its affiliates and/or delegates, such as the Trustee Administrator, may act as data processors (or data controllers in their own right in some circumstances).

For further information on the application of the DPA to the Trustee, please refer to the Privacy Notice (a copy of which may be requested from the Trustee Administrator by email at dubai@maples.com), which provides an outline of investors' data protection rights and obligations as they relate to the investment in the Certificates.

Oversight of the DPA is the responsibility of the Ombudsman's office of the Cayman Islands. Breach of the DPA by the Trustee could lead to enforcement action by the Ombudsman, including the imposition of remediation orders, monetary penalties or referral for criminal prosecution.

### Joint Lead Managers Transacting with the Bank

Certain of the Joint Lead Managers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for, the Bank and its affiliates in the ordinary course of business for which they have received, and for which they may in the future receive, fees.

In the ordinary course of their business activities, the Joint Lead Managers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank financings) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Trustee, the Bank and their affiliates, including, without limitation, the Certificates. Certain of the Joint Lead Managers or their affiliates that have a lending relationship with the Bank and its affiliates may routinely hedge their credit exposure to the Bank and its affiliates consistent with their customary risk management policies. Typically, such Joint Lead Managers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Certificates. Any such short positions could adversely affect future trading prices of the Certificates. The Joint Lead Managers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

**THE TRUSTEE**

**Boubyan Tier 1 Sukuk Limited**
c/o MaplesFS Limited
P.O. Box 1093, Queensgate House
Grand Cayman
KY1-1102
Cayman Islands

**THE BANK**

**Boubyan Bank K.S.C.P.**
Al Hamad Towers
P.O. Box 25507
Safat 13116
Kuwait

**THE DELEGATE**

**Citibank, N.A., London Branch**
Citigroup Centre
Canada Square
Canary Wharf
London E14 5LB
United Kingdom

**REGISTRAR**

**Citigroup Global Markets Europe AG**
Reuterweg 16
60323 Frankfurt
Germany

**PRINCIPAL PAYING AGENT, CALCULATON AGENT AND TRANSFER AGENT**

**Citibank, N.A., London Branch**
Citigroup Centre
Canada Square
Canary Wharf
London E14 5LB
United Kingdom

**LEGAL ADVISERS**

*To the Trustee as to Cayman Islands law*

**Maples and Calder (Dubai) LLP**
Level 14, Burj Daman
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P.O. Box 119980
Dubai
United Arab Emirates

*To the Trustee and the Bank as to English law*

**Clifford Chance LLP**
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United Arab Emirates

*To the Bank as to Kuwaiti law*

**International Counsel Bureau**
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Safat 13070
Kuwait

*To the Joint Lead Managers as to English law*

**Linklaters LLP**
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Dubai
United Arab Emirates

*To the Joint Lead Managers as to Kuwaiti law*

**ASAR – Al-Ruwayeh & Partners**
Salhiya Complex, Gate 1, Floor 3
Mohammad Thunayan Al-Ghanim Street
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Safat 13005
Kuwait

*To the Delegate as to English law*

**Linklaters LLP**
One Silk Street
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United Kingdom

**AUDITORS TO THE BANK**

**Deloitte & Touche**
Al Wazzan & Co.
Ahmed Al Jaber Street
Dar Al-Awadi Complex, Floors 7 & 9
P.O. Box 20174, Safat, 13062
Kuwait

**Ernst & Young Al Aiban, Al Osaimi & Partners**
P.O. Box 74
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Ahmed Al Jaber Street
Safat Square 13001
Kuwait

**JOINT GLOBAL CO-ORDINATORS**

**Citigroup Global Markets Limited**
Citigroup Centre
Canada Square
Canary Wharf
London E14 5LB
United Kingdom

**Standard Chartered Bank**
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Dubai International Financial Centre
P.O. Box 999
Dubai
United Arab Emirates

**Watani Investment Company K.S.C.C.**
Floor 35, NBK Tower, Plot 6
Jaber Al-Mubarak & Al-Shuhada St.
Block 7
Sharq, Kuwait
P.O. Box 4950
Safat 13050
Kuwait

## JOINT LEAD MANAGERS

**Abu Dhabi Islamic Bank PJSC**
P.O. Box 313
Abu Dhabi
United Arab Emirates

**Boubyan Capital Investment Company K.S.C.**
P.O. Box 28950
Safat 13150
Kuwait

**Citigroup Global Markets Limited**
Citigroup Centre
Canada Square
Canary Wharf
London E14 5LB
United Kingdom

**Emirates NBD Bank P.J.S.C.**
c/o Emirates NBD Capital Limited
Level 12, West Wing
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DIFC
P.O. Box 506710
Dubai
United Arab Emirates

**Kamco Investment Company K.S.C.P.**
Al Shaheed Tower
Khaled Ibn Al-Waleed Street
P.O Box 28873, Safat 13149
Sharq, State of Kuwait

**KFH Capital Investment Company K.S.C.C.**
P.O. Box 3946
Safat, 13040
Kuwait

**Kuwait International Bank K.S.C.P.**
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Joint Banking Centre
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