بنك بوبيان
Boubyan Bank

2022

Annual Report

Digital Copy

Towards perfection

In the Name of Allah, Most Gracious, Most Merciful

"Verily, Allah is the All-Provider,
Possessor of Power, the Mighty"

Allah the Almighty speaks the truth

H.H. Sheikh
Nawaf Al-Ahmad Al-Jaber Al-Sabah
Amir of the State of Kuwait

H.H. Sheikh
Mishal Al-Ahmad Al-Jaber Al-Sabah
Crown Prince

H.H. Sheikh
Ahmad Nawaf Al-Ahmad Al-Sabah
Prime Minister

Contents

Board of Directors

Abdulaziz Abdullah Dakheel Al-Shaya
Chairman

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

Adnan Abdullah Al-Othman
Director

Hazim Ali Al-Mutairi
Director

Mohamed Yousef Al-Saqer
Director

Waleed Mishari Al-Hamad
Director

Ali Yousef Al-Awadhi
Director

Khalid Ahmad Al-Mudhaf
Director

Waleed Humoud Al-Ayadhi
Director

Abdullah Saud Al-Bader
Director

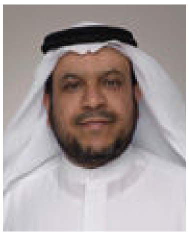
Syed Imran Azhar
Director

Sharia Supervisory Board

Sheikh Dr.
Abdulaziz Khalifa Al-Qassar
Chairman

Sheikh Dr.
Esam Khalaf Al-Enezi
Vice-Chairman

Sheikh Dr.
Ali Ibrahim Al-Rashed
Member



Sheikh Dr.
Mohammed Oud Al-Fuzaie
Member

Executive Management

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

Abdullah Abdulkareem Al-Tuwaijri
Chief Executive Officer - Consumer, Private, and Digital Banking

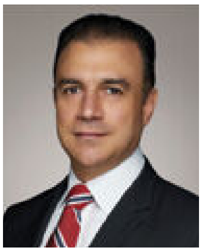
Abdul-Salam Mohammed Al-Saleh
Chief Executive Officer - Corporate Banking, Financial Control, Treasury and Legal Affairs

Waleed Khalid Al-Yaqout
Group General Manager
Administration Group

Adel Abdullah Al-Hammad
Group General Manager
Human Resources Group

Abdullah Ahmed Al-Mehri
Chief Operating Officer

Abdullah Abdulmohsen Al-Mejhem
Chief Private Banking and Consumer Banking



Ashraf Abdallah Sewilam
Group General Manager
Corporate Banking Group

Abdul Rahman Hamza Mansour
Chief Internal Audit
Internal Audit Group

Abdullah Khalifa Al-Nusef
Chief Data & Information
Technology Officer

Osama Mohammed Shehab
Chief Digital Officer

Adel Rashed Al-Mutairi
Treasurer
Treasury Group

Mohamed Ibrahim Ismail
Group General Manager
Financial Control Group

Maged George Fanous
Chief Risk Officer
Risk Management Group

Noorah Sulaiman Al-Fassam
Chief Strategy Officer

Mona Abdullatif Al-Duaij
Group Chief Compliance and
Governance Officer

Abdulaziz Fahad Al-Duwailah
Head of Banking
Operations Group

Chairman's Message

Peace and blessings be with you!

And Peace and Blessings be upon Allah's Messenger and Prophet, and most honored of all mankind, Muhammad, his folk, and companions all.

Dear Valued Shareholders and Investors,

For myself and on behalf of my fellow members of the Board of Directors and members of the Executive Management of Boubyan Bank Group, it gives me great pleasure to place 2022's Annual Report between your hands, which highlights the results and achievements of Boubyan Bank Group, including this year's financial statements.

I am pleased to announce that thanks to the Grace of Allah and then thanks to our continued teamwork, Boubyan Bank managed to realize its vision in the banking business while complying with Sharia controls. The bank succeeded in offering a set of competitive banking products and services through effective application of sound governance bases, international principles and applications. This placed Boubyan in the ranks of leading banks in the domain of digital Islamic banking, while having a prominent presence locally and regionally, and being named the "World's Best Islamic Digital Bank" for the eighth consecutive year by Global Finance.

I would like to stress here that we are committed to achieving further accomplishments, and proceeding, God willing, as per our strategy that focuses on specific targets, including innovative approaches and products as per the best internationally recognized standards to keep up with the accelerating development in systems and the banking sector to top the pyramid in this sector.

Success is an endless journey.

Boubyan 2023

The Bank is swiftly approaching the end of its 5-year strategic plan "Boubyan 2023", which began in 2019 to positively transform its business operations. The Bank is now heavily invested in implementing the final phase of its strategic journey as most of its strategic initiatives are approaching the culmination of their execution roadmap. This includes maintaining the bank's commitment to customers with continued focus on capturing growth opportunities and strengthening its international presence and wealth management proposition. The bank'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 beyond.

The Bank delivered on a successful path with massive growth in terms of profitability and total assets to become the second largest Islamic bank in Kuwait in terms of total assets. The Bank continued growing over two times faster than Kuwaiti Islamic banks from 2009 to 2022. To sustain this growth trajectory, it is diversifying all non-core business to generate higher revenue sources from fee income, FX and investment income. The bank's focus on digital transformation has paved the way to achieve its aspiration to become one of the top Islamic banks in the world offering innovative digital products and services to its customers as an alternative to conventional banking.

18 Years of Leadership & Excellence in the Banking Business

While we celebrated our 18th year of success, this year has seen significant milestones in our journey towards perfection.

We have worked hard to change the perceived image of Islamic banking as being too traditional and have aimed to project ourselves as a modern Islamic bank, which has been the main reason for our growth.

In applying Boubyan Bank's strategy, the bank's natural DNA, creativity, digital innovation and resilience have pushed the market and ourselves to develop new products, and to improve the bank's services and systems to create the most reliable and advanced banking experience for our customers.

Continuous efforts to win customer satisfaction – Going the extra mile for customers

Owing to our relentless focus on excellent customer service in every product, digital or traditional, and every customer interaction, our customers rewarded our efforts by voting us the best bank in customer service. The actions, engagement, and tone you take with customers must reflect the nature of the relationship you aspire to have with them. We focus our efforts to train our employees to be empathetic when dealing with customers to ensure we gain customers' trust.

Boubyan Bank still takes the lead amongst all local Islamic and conventional banks with an overall satisfaction score of 98% Consistent performance and commitment to our clients are reflected in our achievement of being recognized with the "Best Islamic Bank in Customer Service Award" for the 12^{th} year in a row by Service Hero. Year after year of customer service, accomplishments once again prove that as client expectations increase and change, we are right by their side to remind them that Boubyan Bank is the bank that will best satisfy those expectations.

Innovation & Creativity – Our Key to success

Boubyan Bank continued to achieve milestones in 2022, cementing its way into the digital and FinTech world. Our digital first approach not only focuses on launching new innovative products digitally, but also on changing the behavior and increasing the engagement of its customers with digital services by introducing digital channels like WhatsApp, and enhancing the nature of services provided digitally.

Solidifying Our Existing International Presence

The Group's strategy of strengthening its existing international presence includes boosting the performance of the Bank of London and the Middle East "BLME". BLME's principal activity is to act as a holding company for the Bank of London and the Middle East plc and its subsidiaries. Following the increase of the Boubyan Bank's shareholding in BLME in 2020, the Group aims to develop the Bank of London and the Middle East into the UK's leading provider of Sharia compliant wealth management solutions for GCC nationals who have interests in the UK. The Bank of London and the Middle East is an independent wholesale bank engaged in investment, commercial finance, private banking and wealth management.

From an international presence perspective, Boubyan Bank's leveraged its relationship with BLME and offered a unique opportunity to create the First International Islamic UK-based Digital Bank – Nomo - that met the needs of Boubyan clients and underserved clients in the Middle East.

Corporate Banking… Outstanding Solutions

Supporting businesses and companies across various sectors in the local market is the most important goal of Boubyan Bank. Boubyan Bank aims to achieve this through listening, understanding and catering for customers' needs.

This will be achieved through delivering outstanding customer service via digitally strong product design and solutions. Adoption of the said technologies is only emphasized by the continuous development of our human capital to address the needs and challenges of our markets.

Boubyan Bank's Corporate Banking Strategy understands the role of a key pillar in the local economy, namely, Small and Medium Enterprises (SME). Understanding their challenges in the various stages of their growth journey in this new era of business will allow the bank to position itself as a partner for growth.

All these components will come together under the global ESG compliance policy the bank is adopting.

Human Capital

Boubyan Bank believes that its biggest asset is its human capital, therefore, no cost, effort nor time were spared on developing, training and retaining its best resources. Internal and external exposure to best practices and continuous learning are key to maintaining levels needed to meet the ever-increasing challenges in a dynamic business environment. A key component of maintaining talented skills is a developing and delivering specific tailored career paths that will align individual aspirations with the overall strategy of the bank and the group.

Governance

The group understands the importance of implementing governance principles and standards, which lead to the adoption of professional and ethical standards in all transactions, thus contributing to cementing and improving the efficiency of the group leading to reinforcing shareholders' confidence.

The bank continues to implement sound governance practices, considering that they are fundamental principles and represent an important part of its overall culture. The group exerted a lot of efforts to enhance and improve awareness about such values.

The group commits to adopting a sound and effective governance framework in all its dealings as per the Noble Islamic Sharia as the group successfully continues updating the governance system to be aligned with CBK's requirements and with the governance procedures in the banking sector.

Thanks and Appreciation

I would like to seize this opportunity to thank all parties that contributed to our success. And, for myself and on behalf of all Boubyan Bank's employees.

I would like to take this opportunity to express deepest thanks, and appreciation to His Highness, the Amir of Kuwait, Sheikh Nawaf Al-Ahmad Al-Jaber Al-Sabah, may Allah protect him, as well as to H.H., the Crown Prince, Sheikh Mishal Al-Ahmad Al-Jaber Al-Sabah, and H.H the Prime Minister, Sheikh Ahmad Nawaf Al-Ahmad Al-Sabah, may Allah protect them all.

Moreover, I would like to express the deepest thanks to the executives of the Central Bank of Kuwait, headed by H.E., the Governor, Mr. Basel A. Al-Haroon. My deepest thanks are also extended to all members of the Bank's Fatwa and Sharia Supervisory Board, headed by Sheikh Dr. Abdulaziz Khalifa Al-Qasar, for their great efforts.

I would also like to express deepest thanks to all the bank's esteemed shareholders and customers who have always been the key factor behind our success. Furthermore, I would like to thank the directors of the Board for their guidance, remarks, trust, dedication, and ongoing attention. Similarly, I would like to thank the Executive Management and all our employees for their dedication and their efforts. We are all full of confidence and hope that the next year brings many achievements and successes to everyone, God willing, and may Almighty Allah save our precious Kuwait.

Peace be with you!

Abdulaziz Abdullah Dakheel Al-Shaya
Chairman

Management Discussion and Analysis Report

The Management Discussion and Analysis report provides an overview of the economic outlook, which directly influences the performance of the banking sector in general, and then presents highlights on our strategy and financial performance.

Economic Outlook

Global Economy

Economic uncertainties amidst global events.

The 2022 year continued to be highly uncertain, with the ongoing Russia-Ukraine war, energy and climate crises in Europe, the possibility of further pandemic-related supply chain disruptions in China, and the escalating cost of living pressures around the world amid multi-decade high inflation rates, have all combined to weaken demand and raise the risk of a global recession. Central banks are tightening monetary policies at an aggressive rate in order to bring inflation under control, but this has raised the risks of weaker economic growth. According to the International Monetary Fund (IMF), global GDP growth increased by around 3.2 percent in 2022 and is forecasted to grow by around 2 percent in 2023.

The world is kept in a volatile period even after lifting COVID-19-related restrictions in most countries. The growth in the U.S. economy, Eurozone and Japan are mainly affected by external factors such as higher energy import prices, supply chain disruptions, negative shifts in terms of trade, and lower domestic consumptions as price inflations outpaces wage growth and higher interest rates. China's economy, however, is expected to rise with the lifting of mobility restrictions resulting from the resurgence of the COVID-19 virus.

Global stocks and bonds fell nearly 20 percent and 14 percent respectively in 2022. Market data indicates that U.S. and Eurozone inflation dropped to the lowest pace in more than a year in December 2022 which increases the probability that the Fed would slow the pace of its monetary tightening in 2023. The market expects two 0.25 percentage point increases during the first quarter of 2023 before cutting rates towards the end of 2023.

Regional Economy

Regional economy recovery against a backdrop of higher oil prices and production.

The outlook has generally been positive for the Gulf Cooperation Council (GCC) economies during the 2022 year. The overall fiscal balances have strongly improved and the economies had fundamentally benefitted from the overall higher oil prices and rising oil production. It appears that the geopolitical tensions in Europe had limited negative impacts on the regional economies. Also, the dramatic increase in demand for non-Russian oil has expanded the role of the GCC producers in global energy flows. Hence, all GCC economies have posted fiscal surpluses in 2022 and potentially in 2023 as well, according to published information.

According to the International Monetary Fund (IMF), the GCC's real GDP growth reached 6.5 percent in 2022 and is expected to have lower growth in 2023 with the normalization of oil prices. The near-to-medium term outlook for the oil market and oil prices is extremely uncertain and finely balanced, with a slight downside bias given advanced economy weakness and softer Chinese oil demand. Oil prices could trend lower in 2023 as a result, averaging $80 – $85/bbl as compared with an average of $100/bbl during 2022.

Inflation across the GCC is rising but remains broadly contained at around 3 percent in 2022. Over the medium term, inflation is expected to moderate to about 2 percent as global inflationary pressures subside.

Kuwait Economy

The Kuwait economy rallied in 2022 with a GDP growth estimate of 8.7 percent, according to the IMF, up from a growth of 1.3 percent in 2021 following stronger activity in the oil sector against a backdrop of higher oil prices. Crude oil production is at a seven-year-high of 2.81 mb/d. Non-oil GDP growth also showed a fairly robust growth during the year, specifically in real estate activity and bank lending, while the government continues to support the economy through relatively steady policy.

According to published research, inflation is estimated at around 3 percent in 2022, driven by similar factors to those globally. The benchmark discount rate increases by the Central Bank of Kuwait along with the easing of commodity prices towards the end of the year are projected to persist into 2023 and should contribute to easing inflation to around 2 percent in 2023.

Domestic credit grew by around 8 percent in 2022 driven by the lifting of all pandemic-related restrictions and by an increased demand for capital spending by corporates. However, as a result of a materially higher discount rate of 4.00 percent at the start of 2023, up from 1.50 percent at the start of 2022, domestic credit growth, including household credit, is expected to witness a slowdown during 2023.

Banking Sector

The 2022 year has seen a strong rebound from the challenging operating environment that initiated back in 2020 with increased profitability across the sector. The deposits portfolio of the local banks reached approximately KD 51.1 billion by the end of 2022 with a compounded annual growth rate of 3% over the last five years. On the other side, the respective credit portfolio has reached approximately KD 49.2 billion by the end of 2022 with a compounded annual growth rate of 6% over the same period (CBK Data).

The banking sector in Kuwait maintains a potential for growth with positive credit growth in 2023 driven primarily by the lifting of all pandemic-related restrictions, full resumption of business operations, pent-up demand for capital spending by corporates.

Strategy Highlights

In light of the recent challenges that have faced the global community, as opposed to changing the Bank's strategy, Boubyan adopted an offensive strategy. The Bank remained steadfast in its set strategies while accelerating strategic goals to position itself as a "first-mover" and have that advantage while pursuing growth. This has proven to be a successful model and is evident in Boubyan's unrivalled growth over the market. This has been achieved by effectively implementing the set strategy and culminated in the bank growing over two times faster than the Kuwaiti Islamic banks in terms of total assets from 2009 to 2022 and currently ranking Boubyan Bank 3rd amongst its local peers.

Simultaneously, the Bank ensured that its operating model was flexible enough to adapt to the ever changing environment and did not compromise on its asset quality for the sake of growth. This has been proven in the Bank's low non-performing loans ratio realized through maintaining a quality portfolio and prudent provisioning policy as well.

Focused Growth Strategy

Boubyan has currently transitioned to the third phase of its strategy 'Boubyan's 2023' which builds on robust domestic foundations while strengthening international presence and focusing upon new digital propositions – keeping with our pledge to be leaders in innovation.

Continue growing in Kuwait

In the local market, continuing a customer centric approach by focusing on both corporate and retail banking services, Boubyan intends to accelerate the digital banking value proposition by reinforcing the digital trend in payments, retail and commerce while providing remote digital banking platforms.

In terms of Retail Banking, the Bank continued with a clear focus high net worth and affluent clients, expanded its branch footprint, maintained a leadership position in customer experience, ensured continual product and channel innovation and grew its market share.

On the Corporate Banking side, the Bank sustained its position as being the primary banker for large and mid-market corporates, maintained a fair share with super large corporates, upheld superior service in terms of speed and quality, and provided product and channel innovation.

Digitizing international wealth management

The role of digital technologies play a significant role in the development of the bank's strategy. This is evident in the Bank's launch of NOMO, a Sharia compliant UK based digital bank that helps GCC and Middle East clients to manage their money in a convenient and secure way with real time safe access to funds from anywhere. NOMO also provides a fully digitalized on boarding process in minutes with a smart phone, and provides the ability to fund an account through both local and international transfers within 24 hours of account opening.

Digitizing the international wealth management arm of Boubyan Group and pursuing international expansion plays a pivotal role in the bank's strategy. Since the beginning, Boubyan has been at the forefront of digital innovation and NOMO is an extension of this vision. Offering digital wealth management value propositions to the upper affluent segment enhances the Bank's existing product offering and provides access and opportunities to service new markets and segments.

Strong Domestic Network

The Bank continued to grow its branch network in Kuwait with the launch of two new branches along with further new branches in progress, following the launch of four new branches last year. This comes as part of the Banks expansion plans to remain close to its customers and continue meeting their needs, especially in areas witnessing significant population growth.

Financial Highlights

KD '000s

	2022	2021	2020
Financial performance			
Net financing income	167,223	157,507	138,889
Operating income	201,363	187,781	167,482
Operating profit before provision for impairment	100,568	100,543	93,085
Net profit attributable to Equity holders of the Bank	57,786	48,494	34,421
Earnings per share – fils (restated)	14.2	12.4	9.2
Financial position			
Total assets	7,880,757	7,351,899	6,437,149
Financing receivables	5,913,518	5,513,074	4,823,266
Investments	798,339	676,834	673,361
Total depositors' accounts	5,961,728	5,618,787	5,107,728
Total shareholders' equity	798,634	563,537	517,860
Key performance ratios			
Return on average assets	0.8%	0.7%	0.6%
Return on average shareholders' equity*	7.6%	7.8%	5.3%
Cost-income ratio	50.1%	46.5%	44.4%
Non-performing financing ratio	1.0%	0.9%	1.1%
Provision coverage ratio	315%	320%	234%
Capital Ratios			
Capital Adequacy Ratio	19.4%	16.4%	16.9%
Tier 1 Ratio	18.1%	15.2%	15.6%
CET 1 Ratio	15.1%	12.0%	13.7%
Leverage ratio	11.3%	9.4%	9.4%

* Calculated after deducting profit distributed to Tier 1 Sukuk holders.

For the year ended December 31, 2022, net profit attributable to Equity holders of the Bank increased by 19% to KD 57.8 Million, or 14.2 fils per share, from KD 48.5 Million, or 12.4 fils per share, in 2021. This increase is primarily attributable to the growth in net financing income of 6% and lower levels of provisions.

Operating income increased by 7% in 2022 to KD 201.4 Million compared to KD 187.8 Million in 2021. This increase in 2022 was mainly driven by the Bank's growth across core income in both net financing and fees ncome. Net financing income increased by 6% to KD 167.2 Million compared to KD 157.5 Million in 2021 for the most part by the growth in the Banks financing portfolio of 7%.

The Bank's profit margin of 2.3% in 2022 marginally dropped when compared with 2021 following the multiple increases in the benchmark rates both locally and internationally.

Net investment income declined by KD 2.0 Million or 23% due to current market conditions. In contrast, net fee income increased by KD 4.3 Million; an increase of 26% mainly due to higher credit card spends, lending and asset management fees, and other banking services.

Operating expenses increased by 16% to KD 100.8 Million, compared to KD 87.2 Million in 2021, driven primarily by higher inflation. This is in addition to the investment in the international operations, increases in digital technology investments, new branches and the full resumption of business activities otherwise moderated during the 2021 and 2020 periods.

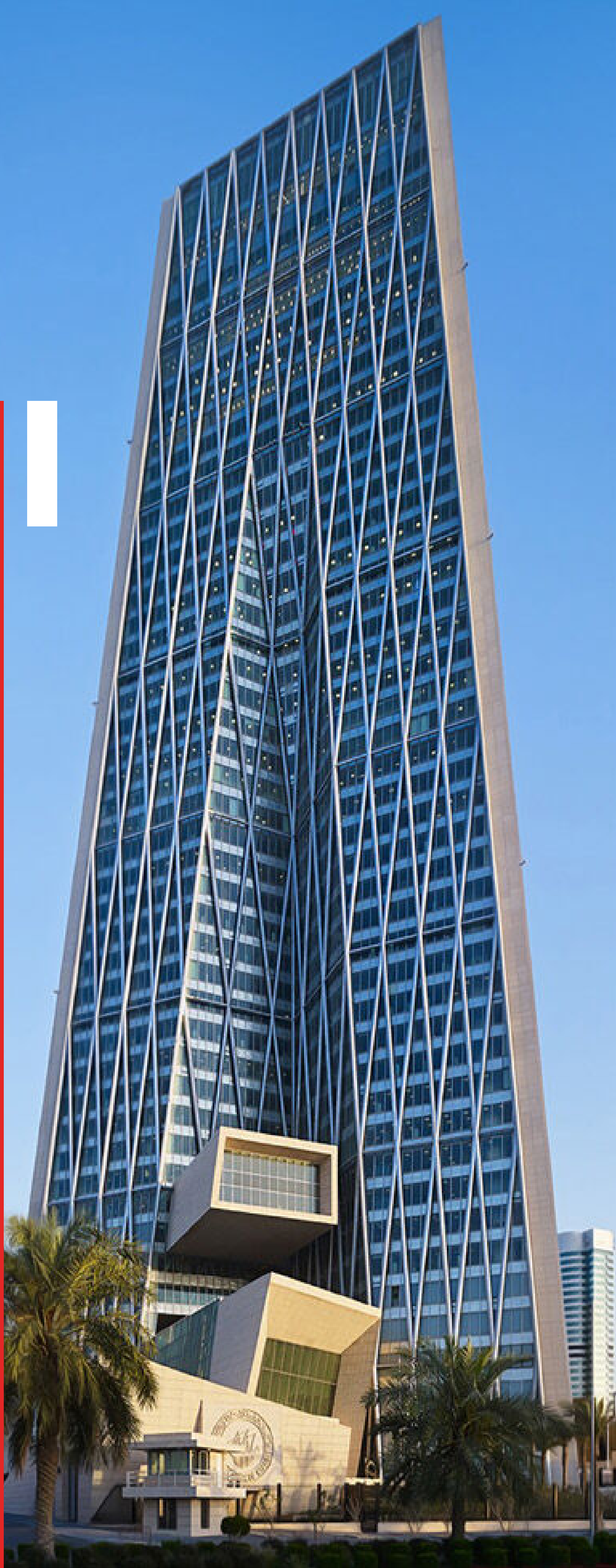
Total assets grew by 7% in 2022 to reach KD 7.9 Billion. The growth was primarily driven by the continued organic growth in the Banks' financing portfolio and investments. In total, the financing portfolio also grew by 7% in 2022 to reach KD 5.9 Billion. Credit facilities growth was mainly from resident customers.

During 2022, customer deposits grew by 6% to reach KD 6.0 Billion with growth heavily driven by the Bank's domestic retail franchise.

The Bank is well capitalized with a Capital Adequacy Ratio of 19.4% in 2022, from 16.4% in 2021 with the growth primarily from the successful rights issuance of KD 200 Million. This has boosted the Bank's regulatory capital level and will support future growth aspirations.

The Board of Directors have proposed cash dividends of 6 Fils per share and stock dividends of 6% for the year 2022 which are subject to approval at the forthcoming Annual General Assembly meeting.

Governance Report



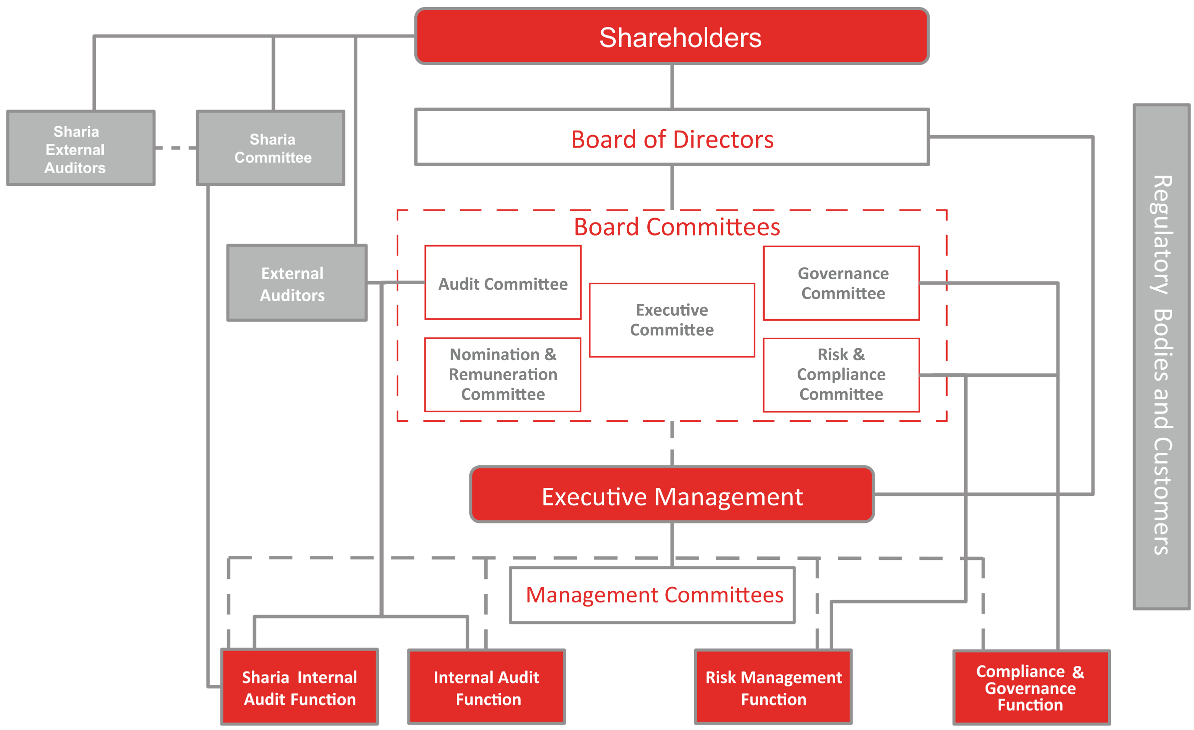
Governance Statement

Boubyan Bank adopts a well-balanced and sound governance framework, which enables directing and controlling business activities in a manner, which aim toward perfection in serving the best interests of all stakeholders, particularly our customers and shareholders. The commitment toward sound governance commences from the top at Board level through adopting and implementing a well-developed and structured governance framework with high standards and professional practices.

Our governance framework is reflected across all levels of Boubyan Bank and its Group in line with the principles of professional responsibility and accountability. It encompasses the Board structure, ethical values and practices, group structure, policies and procedures, internal control, risk management, transparency and disclosures, and protection of the interests of shareholders and stakeholders.

Driven by Boubyan Bank's continuous endeavors for adopting professional practices in management and control under the prime objective of delivering the best to our customers, shareholders and other stakeholders, we maintained during 2022 a proper implementation of the "Governance Framework" in line with the bank's "Governance Manual". We ensured adequate compliance with the Corporate Governance and Sharia Governance requirements of the Central Bank of Kuwait ("CBK"). We implemented as well the latest Corporate Governance requirements issued by the CBK on 10 September 2019. During 2022, 4 independent directors were selected as per the requirements of the Governance Instructions.

Governance Framework



Board of Directors

The bank is managed by a Board of Directors (the 'Board'), which currently consists of eleven Directors, out of which 4 are independent directors, elected by the shareholders under a mandate to deliver sustainable value to all stakeholders, including depositors/customers, shareholders, employees, and the society.

The Board is granted the vastest authorities and overall responsibilities by the shareholders to manage the Bank. The Board operates in line with such authorities, responsibilities, the by-laws of the Bank, and the Board's Charter. The Board held 10 meetings in 2022 and 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.
- Monitoring the performance of Executive Management.

Directors/Board Members

Abdulaziz Abdullah Dakheel Al-Shaya

Chairman

Year of joining: 2009

Skills and Experience:

Mr. Al-Shaya is a well-known businessman with more than 43 years of experience in trading and real estate sectors; he manages a trading company in Kuwait. Mr. Al-Shaya holds a bachelor's degree in Economics from Kuwait University.

Other current posts:

- Vice Chairman – Awtad Real Estate Company, K.S.C.C. (Kuwait)
- Vice Chairman of Trustees – Algonquin College (Kuwait)

Adel Abdul Wahab Al-Majed

Vice-Chairman & Group Chief Executive Officer (Executive)

Year of joining: 2009

Skills and Experience:

Mr. Al-Majed joined Boubyan Bank in August 2009, and has around 41 years of banking experience. He worked previously at the National Bank of Kuwait (NBK) for more than 25 years, where he held leadership positions, including Deputy Chief Executive Officer and General Manager - Consumer Banking Group. Mr. Al-Majed graduated from the University of Alexandria with a bachelor's degree in accounting, and attended various executive management development programs at various universities, including Harvard, Wharton, Stanford, and other reputable institutions.

Other current posts:

- Chairman – Bank London & Middle East (UK)

Adnan Abdullah Al-Othman

Director (Non-Executive)

Year of joining: 2016

Skills and Experience:

Mr. Al-Othman is a well-known businessman with more than 43 years of experience in banking and real estate sectors; he owns a real estate company in the State of Kuwait. Mr. Al-Othman holds a bachelor's degree in Industrial Engineering from Syracuse University - USA.

Other current posts:

- Director and Vice Chairman of Zakat House.
- Member of the Trustees of the One Third of Late Abdullah Abdulatif Al-Othman's Estate (Kuwait).

Hazim Ali Al-Mutairi

Director (Non-Executive)

Year of joining: 2010

Skills and Experience:

Mr. Al-Mutairi has a well-diversified experience for more than 30 years in the fields of financing, investment, and banking. He currently serves as the CEO of a holding company in Kuwait. He graduated from the United States of America with a bachelor's degree in Finance.

Current Positions:

- Director – Warba Insurance Company, K.P.S.C. (Kuwait)
- Director – Idafa Holding Company, K.S.C.C. (Kuwait)
- Director and CEO – Credit One Kuwait Holding Company

Mohamed Yousef Al-Saqer

Director (Non-Executive)

Year of joining: 2019

Skills and Experience:

He is a well-known businessman with more than 33 years of experience in business; he manages two trading companies in Kuwait. He holds a bachelor's degree in Public Administration from Point Park University - USA.

Current Positions:

- Vice Chairman and Managing Director - Al Yasra Group.

Waleed Mishari Al-Hamad
Director (Non-Executive)
Year of joining: 2010
Skills and Experience:
Mr. Al-Hamad has more than 31 years of experience, including 11 years in the banking and the investment sectors. He is the CEO of a holding company in Kuwait, and holds a bachelor's degree in Economics, and a Master's degree in Finance from the United States of America.
Other current posts:
- Director – Helvetia Arab Holding Company, K.S.C.C. (Kuwait)

Ali Yousef Al-Awadhi
Director (Non-Executive)
Year of joining: 2022
Skills and Experience:
He has a diversified experience in the fields of financing, investment, and banking. He occupied various positions in the private sector after earning his bachelor's degree in accounting in 1998.
Other current posts:
- Vice-Chairman & Chief Executive Officer - Securities Group (K.S.C.C.)
- Chairman - Future Communications Company (K.S.C.C.)
- Chairman - Cham Bank
- Director - Al-Mowasat Healthcare Company (K.S.C.P.)
- Director - Nafais Holding Company (K.S.C.P.)
- Director - Kuwait Oil Company

Khalid Ahmad Al-Mudhaf
Director (Independent)
Year of joining: 2022
Skills and Experience:
He has legal expertise as he was hired in the Kuwaiti judicial system following his graduation from the Faculty of Law and Sharia. Over the past period, he held several positions, the most prominent of which were Head of the Experts Administration, the Undersecretary for Legal Affairs, and the Undersecretary for Real Estate Registration & Attestation at the Ministry of Justice.

He also held prominent posts at various state bodies such as Deputy Head of the Legal Advice and Legislation Bureau, Chairman of the Public Authority for Assessment of Compensation for Damages, and Head of the General Secretariat of the Central Committee Overseeing Environmental Rehabilitation Projects.

Other current posts:
- Independent Director - Boubyan Bank
- Chartered Arbitrator at G.C.C Commercial Arbitration Centre "GCCCAC"
- Chartered Arbitrator at Kuwait Chamber of Commerce & Industry

Abdullah Saud Al-Bader
Director (Independent)
Year of joining: 2022
Skills and Experience:
He enjoys an extensive practical experience in the financial sector in the State of Kuwait. Following his graduation from Kuwait University, Al-Bader worked in the financial sector for over 40 years, where he occupied various positions leading a team to set primary targets. This team set the policies and procedures on the one hand, and guided initiatives to generate profitability and capital returns on the other hand. He also had an effective contribution to planning construction projects executed by the companies he managed.

Mr. Al-Bader graduated from Kuwait University with a bachelor's degree in Business Administration. Additionally, Mr. Al-Bader attended various programs of Harvard Business School, including the First Middle East Executive Program.

Furthermore, he attended training programs on Islamic financing. In addition to completing a comprehensive training on Islamic finance schemes & services, and financial instruments, Mr. Al-Bader attended a course on transformation to the Islamic system.
Other current posts:
- Independent director at Boubyan Bank.

Syed Imran Azhar
Director (Independent)
Year of joining: 2021
Skills and Experience:
Mr. Ali trained as an external auditor with EY in the UK and has 41 years of experience in that field serving in five countries across three continents. He retired as the Managing Partner of EY Assurance practice in the Middle East and North Africa (MENA). Mr. Ali gained fellowship and is now a life member of the Institute of Chartered Accountants in England and Wales (ICAEW).
Other current posts:
- Independent director at Boubyan Bank.

Waleed Humoud Al-Ayadhi
Director (Independent)
Year of joining: 2021
Skills and Experience:
He possesses around 41 years of experience in banking and insurance sectors. Moreover, he formerly served as Deputy CEO at a Kuwaiti takaful insurance company. Mr. Al-Ayadhi graduated from City University in USA with a bachelor's degree in Business Administration.
Other current posts:
• Independent director at Boubyan Bank.

Structure and Independence

The Board possesses a collective experience from various industries and business sectors brought by all the Board Directors who are elected rather than being appointed by the shareholders. Within the Board, only the Vice-Chairman & Group CEO is entrusted with executive role; all other Board Directors are 6 Non-Executive Directors and 4 Independent Directors, who are not acting as employees and do not participate in the day-to-day business management and activities of Boubyan.

Accordingly, the non-Executive & Independent Directors bring an independent perspective, with constructive challenges to develop proposals on strategy, scrutinize the performance of management in meeting agreed goals and objectives, and monitor the risk appetite and the reporting of performance. Moreover, the decisions of the Board are not dominated by certain individuals or groups.

Further, Non-Executive & Independent Directors are independent in terms of post and judgment in line with the Board's "Code of Conduct" and "Conflict of Interest" policies. The Board has ensured that any potential incidence of conflict of interest that may jeopardize the independence and objectivity of any Board Director will be managed and cleared as per the adopted policies. Hence, the Bank confirms the independence of its Board Directors on their judgments and decisions.

Approach to Governance

The Board understands that sound governance framework is one of the key pillars for ensuring achievement of goals and objectives of the Bank, along with maintaining the trust with the shareholders to maintain business growth, sustainability, and profitability.

Accordingly, the Board is committed to implementing proper governance practices, which meet the relevant governance regulatory requirements and extend to reflect applicable best practices. The Board ensures the implementation of the corporate governance practices through its supervisory role without stepping onto the day-to-day activities, which are delegated to the Executive Management.

Authorities

The Board is responsible for managing the business of Boubyan Bank and, in so doing, may exercise its full authorities, subject to any relevant laws and regulations and to the Articles of Association and By-laws of the Bank. In particular, the Board may exercise the authority to obtain financing and to mortgage or charge all or any part of the property or assets (existing or future) of Boubyan Bank, and may exercise any of the authorities delegated by the shareholders of the General Assembly.

On the other hand, the Board can assign to Directors, Executives and/or Committees any of its powers, authorities and discretions (including the power to sub-delegate); accordingly, the Board delegated the management and day-to-day activities of the Bank to the Executive Management but retained certain authorities among of which:

1. The approval of critical strategic matters including business plans, risk appetite and performance targets, and procedures for monitoring and controlling operations.
2. The authority or the delegation of authority to approve credit and market risk limits, acquisitions, disposals, investments, capital expenditure or realization or creation of a new venture.
3. Appointment of the Executive Management team.
4. Any changes on the accounting policies, which would have material impact on the financial position of the bank.

Reporting of Information

The Board regularly reviews the financial and management reports compared to financial budgets and business plans. Further, the Board Committees report to the Board on a periodic basis on their activities. The Board ensures the receipt of reliable, relevant, adequate, useful and timely information that enables taking appropriate decisions; such information includes:

- The agenda and supporting documents of Board and Committee meetings.
- Regular reports and presentations on strategy, budgets and developments in the businesses.
- Regular reports on the Group's risk appetite profile, top and emerging risks, risk management, credit exposures and the bank's financing portfolio, asset and liability management, liquidity, litigation, compliance, anti-money laundering and reputational issues.
- Reports on capital management, business continuity and succession planning.

Further, all Board members have full access to all relevant information, and may take independent professional advice as needed; they can also contact management and employees at all levels.

Board Assessment

Boubyan Bank adopted an internal mechanism to assess the performance of the Board and Board Directors on an annual basis. The performance assessment mechanism is based on peer review, where feedback of participants is obtained through automated, independent service provider. The overall Board performance focuses on four keys pillars, which are structure, role, activities, and chairmanship. The respective pillars comprise of around twenty key performance indicators. On the other hand, the individual Board assessment is based on five key performance indicators. The outcome of the performance assessment is discussed at the Board Nomination and Remuneration Committee and is presented to the Board.

For 2022, Boubyan Bank conducted performance assessment for the Board and Board Directors in line with the adopted mechanism. The outcome of the assessment revealed that the Board met the requirements and expectations of the assessment criteria. It also showed that Directors of the Board were clearly aware of their duties and fulfilled them accordingly. Furthermore, there are no areas of concern on the overall performance of the Board and the individual performance of each Director.

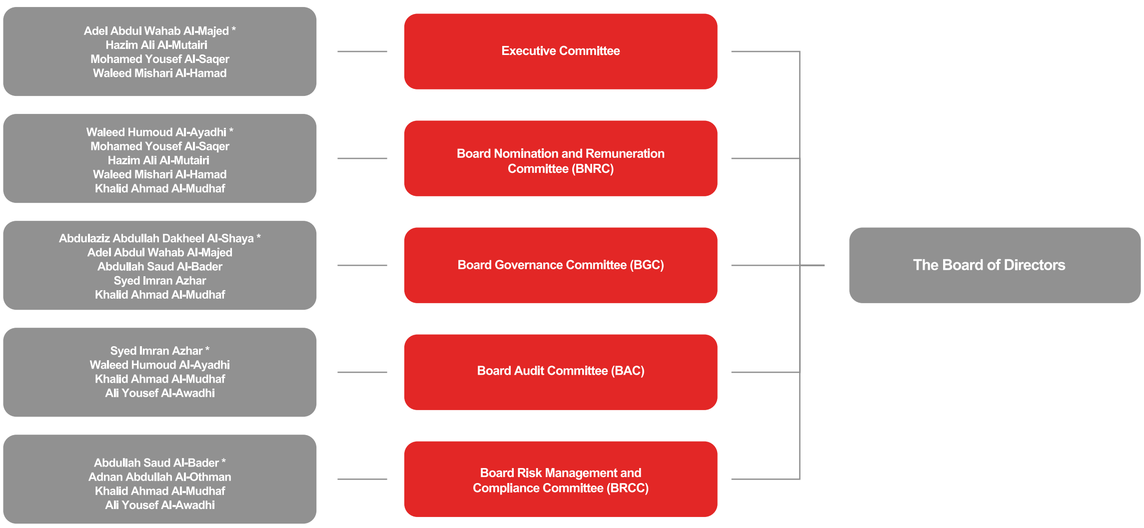
Board Committees

To assist in fulfilling its duties, the Board established five key Board Committees and delegated to them responsibilities to act on its behalf. The respective key committees were established in line with proper corporate governance principles and the applicable corporate governance regulatory requirements. Furthermore, there are other Board Committees, which meet as needed.

Each Board Committee has clear role, duties, and authorities as determined and reflected within the Board-approved respective charter. The chairperson of each Board Committee regularly reports to the Board on the performance of activities of the respective Board Committee.

Except for heading the Board Governance Committee, the Chairman is not a member of any Board Committee.

Composition of Key Committees



* Chairperson

Details of Key Committees

Executive Committee

The BEC comprises of four Board Directors, and is headed by the Vice-Chairman & Group CEO. The members of the BEC are not members in Board Audit Committee or Board Risk and Compliance Committee; and they possess collective experience in banking, credit financing, business, and real estate.

As per the charter of the BEC, the Committee should meet at least six times a year. The main role of the BEC is to review and approve limits and transactions related to financing and investment activities as set within the authority matrices of Boubyan Bank. The BEC reviews as well related policies such as financing policies.

Committee Activities During the Year:
During 2022, the committee met 8 times, and performed various activities, which included but were not limited to:

- Approve financing transactions in line with the approved authority limits.
- Recommend settlement of debts and/or legal cases of corporate customers to the Board.
- Approve related party transactions and investment transactions within its authority limits.

BNRC

The BNRC comprises of five Board Directors; the chairperson of the committee shall be one of the board's independent members who shall have a vice-chairperson to act on his behalf in his absence. The members of the BNRC have collective experience in banking, business, and Islamic Sharia.

As per the Charter, the committee meets 4 times a year at least, or whenever needed, to perform its role effectively. The main role of the BNRC includes assessing the nominees for the Board based on set criteria, administering the assessment of the Board, revising the Remuneration Policy and the assessment of Executive Management performance in addition to ensuring proper employee succession plan is in place.

Committee Activities During the Year:
During 2022, the committee met four times; the activities of the committee included but were not limited to:

- Review the proposed remuneration schemes and propose related recommendations to the Board for approval.
- Administer Board Performance Assessment.
- Conduct performance assessment for Fatwa and Sharia Supervisory Board.
- Review the annual performance assessment of the Vice-Chairman & Group CEO.
- Ensure that performance assessment was conducted for Executive Management.
- Review the succession plan.
- Identify training programs to the Board.
- Review and approval of the Code of Conduct & Ethics for Directors of the Board and Executive Management.
- Discussing the employment of competent national cadres in mid and top management.

Board Governance Committee (BGC)

The BGC comprises of five Board Directors; the Chairman is the chairperson of the BGC, which includes 3 independent directors. Members of the committee have diverse experiences in banking, business, and governance.

The Governance Committee should meet at least twice a year. The main role of the committee includes developing and updating the Governance Manual, ensuring that the Governance Manual is adequately followed, reviewing annual governance report, and following-up on governance related recommendations/actions.

Committee Activities During the Year:
During 2022, the committee met twice, and covered the following activities by way of example and not limitation:

- Review the governance report.
- Discuss the governance review reports of the Corporate Governance Unit and follow up on the status of respective recommendations.
- Follow-up on the implementation of CBK Corporate and Sharia Governance requirements.
- Ensure that the Board and Board Committees held adequate number of meetings.
- Review the Corporate Governance Manual.

Board Audit Committee (BAC)

The BAC comprises of four Board Directors, all of whom are non-executives, and is presided by an independent director; those directors have diverse experience in banking, business, governance, and audit. None of the committee's members is a member of the Board Executive Committee.

The BAC should meet on a quarterly basis at least, and its main roles include:
The BAC should meet on a quarterly basis at least, and its main roles include:

- Reviewing the charter and manual of the Internal Audit Group, and accounting policies.
- Assessing and recommending the appointment of external auditors.
- Reviewing annual and quarterly financial statements.
- Discussing the internal and external Sharia audit reports.

- Approving the internal audit plan, discussing internal audit reports, and following up on the status of corrective actions.
- Providing support to the Internal Audit Group to ensure fulfilling its scope of work effectively and independently.
- Approving the appointment and/or resignation of the Chief Audit Executive – Internal Audit Group, and assessing his annual performance.

Committee Activities During the Year:
During 2022, the committee met 10 times including quarterly meetings in line with governance requirements issued by regulatory authorities.
During the year, the committee's activities included, but were not limited to, the following:
- Approve internal audit plan.
- Discuss internal audit reports, management letters of external auditors, and ICR reports.
- Reviewing annual and quarterly financial statements.
- Approve the accounting policies.
- Follow up on the corrective actions for observations of internal audit reports, management letters issued by external auditors as well as the ICR reports, and CBK observations and respective actions.
- Discuss the Sharia internal audit reports.
- Meet the External Auditors and the External Sharia Auditors.

Board Risk Management and Compliance Committee (BRCC)
The committee comprises of four Board Directors, all of whom are non-executive, and is presided by an independent director. None of the committee's members is a member of Board Executive Committee.
As per its charter, the BRCC meets at least four times a year. The role of the BRCC includes:
- Assessing the Risk Appetite measures, Risk Strategy, and other risk related metrics, and proposing recommendations to the Board.
- Reviewing and discussing the reports of the Risk Management Group, including the Capital Adequacy Ratio, Internal Capital Adequacy Assessment Process (ICAAP), Stress Testing, and other risk assessment reports.
- Providing support to the Risk Management Group to ensure fulfilling its scope of work effectively and independently.
- Approving the appointment and/or resignation of the Chief Risk Officer – Risk Management Group, and assessing his annual performance.

Committee Activities During the Year:
During 2022, the committee met 6 times, and its activities included, but were not limited to, the following:
- Reviewing risk appetite metrics and reports on risk levels.
- Reviewing the bank's capital plan.
- Approving a number of policies such as AML Policy and Investment Policy.
- Discussing the sukuk portfolio investment plan.
- Review ICAAP report and the results of stress testing.
- Periodic review of the bank's international exposures' limits.
- Discussing the reports and activities' plans of the Compliance Department and the AML Department.
- Reviewing and discussing the project for restructuring AML.
- Reviewing and discussing the non-quantitative risks, especially cybersecurity, and the steps to cover the same by the IT Department in addition to discussing the executives in charge of this department.

Meetings of the Board of Directors and Key Board Committees

Attendance Number of Meetings Minimum Required Meetings	Board 10 6	BEC 8 6	BNRC 4 4	BCGC 2 2	BAC 10 4	BRCC 6 4	Member's Attendance %
Abdulaziz Abdullah Al-Shaya	9			2			95%
Adel Abdul Wahab Al-Majed	10	7		2			97%
Adnan Abdullah Al-Othman	9				2	6	96%
Hazim Ali Al-Mutairi	8	8	4				89%
Mohamed Yousef Al-Saqer	10	5	3		2	1	97%
Waleed Mishari Al-Hamad	10	5	3		2		89%
Syed Imran Azhar	10			1	10		97%
Waleed Humoud Al-Ayadhi	10		4		8	1	100%
Ali Yousef Al-Awadhi (1)	7				7	5	90%
Khalid Ahmad Al-Mudhaf (1)	8		3	2	8	5	100%
Abdullah Saud Al-Bader (1)	8			2		5	100%
Fahad Ahmad Al-Fouzan (2)	2		1				100%
Waleed Abdullah Al-Houti (2)	2	3					100%
Waleed Ibrahim Al-Asfour (2)	2	2					80%

(1) Directors of the Board elected during the General Assembly meeting, dated on March 23rd, 2022, and admitted to the Board of Directors as new directors.
(2) The term of previous directors ended on March 23rd, 2022.

Executive Management

The Board of Directors delegated to the Executive Management, which is headed by the Vice-Chairman and Group Chief Executive Officer, the implementation of the adopted strategy and business plan.

Management Team

Adel Abdul Wahab Al-Majed

Vice-Chairman & Group Chief Executive Officer

Mr. Al-Majed joined Boubyan Bank in August 2009, and has around 40 years of banking experience. He worked previously at the National Bank of Kuwait (NBK) for more than 25 years, where he held leadership positions, including Deputy Chief Executive Officer and General Manager - Consumer Banking Group. Mr. Al-Majed graduated from the University of Alexandria with a bachelor's degree in accounting, and attended various executive management development programs at various universities, including Harvard, Wharton, Stanford, and other reputable institutions.

Abdullah Abdulkareem Al-Tuwaijri

Chief Executive Officer - Private, Consumer & Digital Banking

Mr. Al-Tuwaijri joined Boubyan Bank in December 2011 and has more than 33 years of banking experience, including 23 years at NBK. During his time with NBK, he held different leadership roles in retail banking in Kuwait and London. Mr. Al-Tuwaijri earned his bachelor's degree in Finance from Kuwait University, and attended several executive development programs at Harvard Business School, INSEAD, and other reputable institutions.

Abdul-Salam Mohammed Al-Saleh

CEO - Corporate Banking, financial Control, Treasury, and Legal affairs

Mr. Al-Saleh joined Boubyan Bank in October 2012, and has more than 34 years of banking experience. He worked for 18 years at NBK, where he gained experience in Financial Control and Corporate Banking; and his last position was the Head of Domestic Corporate Banking. Prior to joining the Bank, he worked over 7 years for National Bank of Abu Dhabi (NBAD) as the Regional Manager of its branch in Kuwait. Mr. Al-Saleh earned his bachelor's degree in Finance from Kuwait University, and attended various executive management development programs over the course of his career.

Waleed Khalid Al-Yaqout

Group General Manager - Administration Group

Mr. Al-Yaqout joined Boubyan in February 2010, and has around 40 years of banking experience. His previous position was General Manager – Administration and Human Resources Group at NBK. Mr. Al-Yaqout graduated with a bachelor's degree in Business Administration and Marketing from the University of Ashland in USA, and participated in various executive management development programs at Harvard, Wharton, Stanford and Columbia.

Adel Abdullah Al-Hammad

Group General Manager - Human Resources Group

Mr. Al-Hammad joined Boubyan Bank in December 2006, and has more than 38 years of experience in Human Resources Management, out of which 23 years were 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 management development programs at Harvard and Stanford.

Abdullah Ahmed Al-Mehri

Chief Operating Officer

Mr. Al-Mehri joined Boubyan Bank in January 2019 and has more than 21 years of experience in banking sector. Prior to Boubyan, he was the head of the "Off-site Supervision Department" at the Central Bank of Kuwait. He worked earlier in the Corporate Banking as Executive Manager at First Bank of Abu Dhabi in Kuwait and Senior Manager at National Bank of Kuwait. He holds a bachelor's degree in accounting from the American University of Cairo and a master's degree in business administration from the Maastricht School of Management in Kuwait. Also, he attended various executive management development programs at Harvard.

Abdullah Abdulmohsen Al-Mejhem

Chief Private Banking and Consumer Banking

He joined Boubyan Bank in 2021 and has more than 21 years of experience in the banking sector and at financial institutions. Prior to Boubyan, he was the General Manager - Private Banking and Retail Finance at KFH. He also worked for Deloitte, the auditing and advisory services firm, in Kuwait as well as Kuwait Investment Authority. He holds a bachelor's degree in accounting and an MBA from Kuwait University. Moreover, he attended a number of leadership development programs and is a chartered accountant in the State of Kuwait.

Ashraf Abdallah Sewilam

GGM Corporate Banking Group

Mr. Sewilam joined Boubyan Bank in 2013, and has over 28 years of experience in banking sector. Before joining Boubyan, Mr. Sewilam was CEO of Al Rajhi Bank-Kuwait. He occupied the position of the CEO of UBCI (a subsidiary of Ahli United Bank "AUB" in Libya) and was a Deputy CEO for Corporate and Treasury at AUB in Kuwait. He worked as well for 10 years at NBK, where he progressed in several managerial positions, the last of which was Executive Manager. Mr. Sewilam holds bachelor's degree in Economics from Cairo University.

Abdul Rahman Hamza Mansour

Chief Internal Auditor - Internal Audit Group

Mr. Hamza joined the Bank in year 2006 and has around 40 years of professional experience with financial institutions. Prior to joining Boubyan, he held a position as Audit Manager at Kuwait Investment Authority, and worked before that at Al-Ahli Bank of Kuwait. Mr. Hamza holds a bachelor's degree in Accounting, and he is a Certified Public Accountant (CPA), a Certified Internal Auditor (CIA) and a Certified Fraud Examiner (CFE).

Mohamed Ibrahim Ismail

Group General Manager – Financial Control Group

Mr. Ismail joined Boubyan Bank in 2005 and has about 25 years of banking and financial services experience. He started his career as an external auditor with Deloitte & Touche and then Ernst & Young. In the course of his career, he worked at Kuwait Finance House and Gulf Investment House. Mr. Ismail is a Certified Public Accountant (CPA) and a Certified Internal Auditor (CIA), and he holds MBA in Finance from Manchester Business School.

Maged Fanous

Chief Risk Officer

Mr. Fanous joined Boubyan Bank in February 2018; he has over 34 years of experience in banking, risk management, and financial regulations. Before joining Boubyan, he was a lead partner of the Risk and Regulatory practices of Ernst & Young in the UK and MENA. Prior to this, he was a lead partner of the Finance and Performance Management (FPM) of Accenture's UK/Ireland. Mr. Fanous holds a bachelor's degree in accounting from Cairo University.

Noorah Sulaiman Al-Fassam

Chief Strategy Officer

Ms. Noora Al-Fassam joined Boubyan Bank in April 2019 with over 24 years of experience in corporate finance and investment banking as she served as the Chairman's Consultant and Executive Vice-President at National Investments Company and managed many landmark private placement transactions and executed mega M&A transactions in the region. Ms. Al-Fassam was a member of the investment banking team at NBK and was involved in capital market transactions as well as investment banking deals in the MENA region. Ms. Noora Al-Fassam holds an MBA and a Bachelor's degree in Industrial Engineering and Management Systems with distinction and honor list from Kuwait University.

Abdullah Khalifa Al-Nusef

Chief Data & Information Technology Officer

Mr. Al-Nusef joined Boubyan Bank in February 2016 and has more than 15 years of experience in IT and Technology sector. Prior to Boubyan, he was the head of the "Technical Development Department" at the Civil Service Commission Kuwait. He worked in many National IT Projects in Governmental Sector. He holds a bachelor's degree in Electrical Engineering from the Kuwait University and a master's degree in Computer Communications from the Gulf University in Bahrain; he attended as well various executive management development programs provided by Wharton and Chicago Booth Schools.

Osama Mohammed Shehab

Chief Digital Officer

Osama joined Boubyan Bank in May 2011 and has over 25 years of banking experience in IT in general and modern FinTech in particular. Moreover, he occupied several IT positions at KFH where he spent over 14 years. Osama graduated from Ain Shams University and attended various executive management development programs at London Business School and many other prestigious institutions.

Adel Rashed Al-Mutairi

Treasurer

He joined the Bank in 2015 and has over 18 years of experience in banking sector, mainly in treasury services. Prior to joining Boubyan, he held the position as the Deputy Treasurer Warba Bank. He holds a bachelor's degree in Education – Major in Science & Mathematics, and he attended the executive management programs at Wharton Business School and Harvard Business School.

Mona Abdullatif Al-Duaij

Group Chief Compliance and Governance Officer

Ms. Mona joined Boubyan Bank in 2005 with more than 17 years of experience. She has since acquired many years of experience in the banking sector. She held many positions where she became in charge of the Sales and Distribution Channels Support Department and then moved to the Compliance Department until she was appointed Head of the Compliance Group in 2021. She graduated from Kuwait University, the College of Business Administration - Finance Major in 2005, and then attended many specialized banking programs and many other programs abroad such as KFAS 2018's Innovation Program from UCLA and a Mini MBA from London in addition to attending various executive management development programs at other prestigious institutions.

Abdulaziz Fahad Al Duwailah

Head of Banking Operations Group

He joined Boubyan Bank in March 2010, and has around 19 years of banking experience where he worked for many local banks. He occupied several positions at the bank, including Regional Manager - Consumer Banking Group. He was also in charge of the Branch Support Department, and was then transferred the to the Banking Operations Group in 2016, where he held several positions until being promoted to Head of Banking Operations Group in June 2021 after securing the approval of the Central Bank of Kuwait. He earned his MBA from GUST in 2017, and chaired the Operations Committee of Kuwait Banking Association during the period from 2020 to 2021. During his practical experience, he earned many specialized certificates in leadership and strategy from prestigious universities such as Harvard Business School, in addition to attending Strategic Program of Duke University.

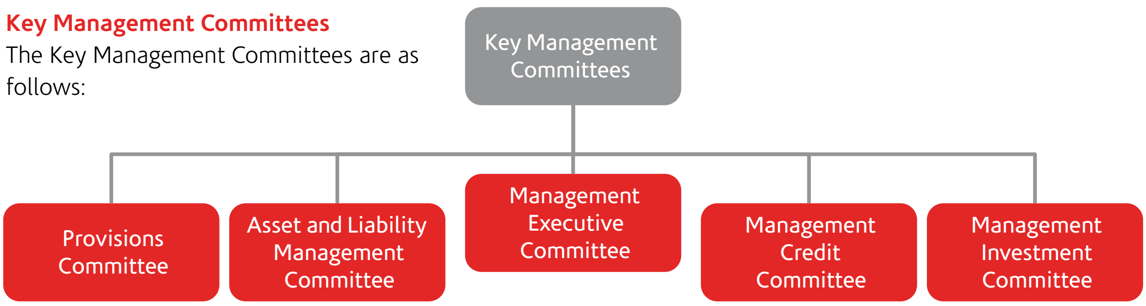
Badriya Al Humaidhi

Chief Executive Officer - Boubyan Capital

Ms. Badria Hamad Al Humaidhi has over 20 years of experience in investment and asset management. Throughout her career, she held several positions within reputable financial firms namely Global Investment House (now Kamco), and NBK Capital. Her Boubyan Capital's responsibilities included the creation of regional and international investment opportunities, development and implementation of investment strategies, supervision of investment management tools and trading services, in addition to many other responsibilities. Ms. Badria holds a bachelor's degree in Management Information Systems from the University of Massachusetts and an Executive MBA from London Business School. She also attended the Program for Leadership Development at Harvard Business School.

Key Management Committees

The Key Management Committees are as follows:



Management Committees

The Executive Management works in a teamwork spirit, where collective efforts and decisions would be required for ensuring effective and efficient management of integrated functions and activities. Accordingly, Boubyan 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 mainly from the Vice-Chairman & Group CEO, and based on authorities and limits delegated by the Board of Directors.

Management Executive Committee

This committee deals with all significant management level matters other than those handled by other management committees. The committee usually meets on ad hoc basis.

Assets and Liability Management Committee (ALCO)

The ALCO reviews the assets and liability composition of the bank, liquidity, market risks, trends and their impact on the Bank. The committee generally meets on a monthly basis.

Management Credit Committee (MCC)

The main objective of MCC is to discuss and make decisions within its authorized limits on financing proposals submitted by the business groups. The committee usually meets on a weekly basis.

Management Investment Committee (MIC)

The MIC discusses and makes decisions within its authorized limits on investment proposals submitted by the concerned business groups. The committee usually meets on a weekly basis.

Provisions Committee (PVC)

The Provisions Committee reviews and evaluates the outstanding investments and financing transactions for each customer, to determine any issues or difficulties relating to the customer position that require to classify such investments and financing transactions as irregular and hence determining the required provisions in accordance with CBK instructions and International Financial Reporting Standards. The committee meets at least once every quarter.

Internal Control

The Board is responsible for ensuring the adequacy of the Group’s internal control framework. This includes, but is not restricted to, the approval and oversight of the implementation of the strategy via policies that reflect the prudent Sharia compliant approach to conducting its businesses. The internal control processes include controls and limits that are embedded in all processes; risk and control reports are integral parts of the Group‘s daily activities. Such procedures were designed to manage and mitigate risk of failure to achieve business objectives and can only provide reasonable rather than absolute assurance against material misstatements, errors, losses, or fraud.

In line with its duties and responsibilities toward ensuring adequate internal control systems, the Board provided all needed support and ensured fulfillment of the roles of the various functions involved in the internal control, including:

- Fatwa and Sharia Supervisory Board
- External Audit.
- Governance.
- Internal Audit.
- Sharia Internal Audit.
- Risk Management.
- Compliance.
- Anti-Money Laundering.
- Fraud Monitoring

Internal Control Review

In the year 2022, Boubyan Bank engaged an external auditor in line with the CBK regulations to conduct an independent internal control review for 2021’s activities. Based on the review of the external auditor, no exceptions pertaining to governance aspects were noted. Further, the report of the external auditor concluded that Boubyan Bank maintained, in all material aspects, effective internal control systems; the Internal Control Review report is attached in the next page.

Internal Control Systems Review Report

Boubyan Bank K.S.C.
Report on Accounting and Other Records and Internal Control Systems for the year ended 31 December 2021

Private and confidential

Chairman
Boubyan Bank
Kuwait City, Kuwait

23 June 2022

Report on Accounting and Other Records and Internal Control Systems

In accordance with our letter of engagement dated 10 March 2022, we have performed limited procedures over the accounting and other records, in addition to the internal control systems of Boubyan Bank K.S.C., and its subsidiaries (together referred to as "the Group"), which were in existence during the year ended 31 December 2021. We covered the following areas of the Group:

- Corporate Governance;
- Corporate Banking Group;
- Treasury;
- Banking Operations Group;
- Consumer Banking Group;
- Financial Control Group;
- Consumer Finance Operation Department;
- Information Technology;
- Risk Management Group;
- Compliance Division;
- Anti-Money Laundering Department;
- Human Resources Group;
- Legal Affairs Group;
- Sharia's Internal Audit Department;
- Internal Audit Group;
- Corporate Communications Department;
- Administration Group;
- Complaints Unit;
- Strategy and Planning Department;
- Digital Group;
- Innovation and Partnerships Department;
- Boubyan Capital Investment Company K.S.C.;
- Boubyan Takaful Insurance Company K.S.C.; and
- Boubyan UK.

The internal controls review was primarily based on enquiry, observation and analytical review procedures supplemented by limited testing of transactions, reports and reconciliations. The resulting issues and recommendations were discussed with management during the course of our engagement and prior to the finalization of this report.

Our procedures have been carried out in consideration of the requirements of the Central Bank of Kuwait (CBK) circular dated 19 January 2022 considering the requirements contained in the General Instructions Manual of the Internal Control Systems in Banks issued by the CBK on 15 June 2003, Pillar IV of Corporate Governance instructions in respect of risk management and internal controls issued by the CBK on 20 June 2012 and amended on 10 September 2019, CBK instructions regarding combating money laundering and terrorism financing dated 14 May 2019, instructions dated 9 February 2012 regarding confidentiality of customer's information, financial securities activities and instructions regarding internal controls with respect to prevention and reporting of fraud and embezzlement cases.

As Board of Directors of Boubyan Bank, you are responsible for establishing and maintaining adequate accounting and other records and internal control systems, taking into consideration the expected benefits and relative costs of establishing such systems and complying with the requirements contained in the CBK instructions mentioned in the above paragraph. The objective of this report is to highlight our observations on the extent to which the adopted procedures and systems are adequate to safeguard the assets against loss from unauthorized use or disposition; that key risks are properly monitored and evaluated; that transactions are executed in accordance with established authorization procedures and are recorded properly. The procedures we performed did not constitute an examination or a review in accordance with generally accepted auditing standards or attestation standards, accordingly we do not provide an opinion, attestation or other form of assurance with respect to our review, except as may be specified in this report.

Further, we did not plan and perform our work with the objective of preventing or discovering fraud. Our procedures under this engagement are also not designed to and are not likely to reveal misrepresentation by the management of the company. Consequently, we give no assurance on whether the period covered by our engagement was free of fraud (whether by management or by external parties), other irregularities or misrepresentation by the management of the company or any other persons. Due to COVID 19 pandemic, we have completely relied upon the off-site meetings conducted and information provided remotely, in order to understand the control environment and perform our procedures at international locations. The off-site meetings and remote information were arranged by the Group.
Furthermore, the Bank has established a process of regular follow-up on reported exceptions to ensure that corrective actions are being taken to rectify the control weaknesses and gaps identified during the course of the Internal Control Review.

This report has been prepared solely for the information of the board of directors, audit committee and management of the company for their internal use and benefit and is not intended to nor may it be relied upon by any other party ("Third Party"). We permit a copy of our report to be shared with the Central Bank of Kuwait, provided that a full copy of our report is provided. Neither this report nor its contents may be distributed to, discussed with, or otherwise disclosed to any Third Party without our prior consent. We do not accept responsibility to any other party to whom it may be shown or into whose hands it may come.

Khaled Ebrahim Al Shatti
License No.175 A of
PricewaterhouseCoopers Al Shatti & Co.

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T: +965 2227 5777 F: +965 2227 5888, www.pwc.com

Risk Management

Risk Management Framework

Boubyan Bank understands the importance of the Risk Management Function. This is driven by the responsibility of the Board of Directors for protecting the best interests of shareholder and stakeholders, especially depositors/ customers.

Boubyan Bank perceives Risk Management as an integrated function with the business activities, which is guided by a well-balanced Risk Appetite model; hence, Boubyan Bank adopts the philosophy of "risk is everyone's business". Accordingly, Boubyan Bank follows a "Three-Line of Defence" approach, and adopts an Enterprise Risk Management (ERM) model through updating and linking the risk appetite measures to an ERM index.

Boubyan Bank Risk Management Framework

Stress Testing

In line with best practices for risk management, Boubyan Bank conducts stress testing to measure the Bank's vulnerability to exceptional but plausible events. The respective stress testing is conducted on a quarterly basis, where the results are discussed at management level and presented to the Board Risk Management and Compliance Committee. Further, the results of Stress Testing are reported on a semi-annual basis to the Board and Central Bank of Kuwait.

Risk Management Group

The Risk Management Group (RMG) operates independently from the business, as it reports to the Board Risk Management and Compliance Committee and the Group CEO. The RMG comprises of the following functional departments:

- Enterprise Risk Management
- Corporate Credit Risk Review
- Operational Risk
- Fraud Management and Monitoring
- Technology Risk
- Information Security
- Cybersecurity
- Business Continuity Management

Remuneration Policy and Remuneration Package

Remuneration Scheme

Boubyan Bank always considers adopting a balanced "Remuneration Scheme" to be competitive enough to attract and maintain qualified and skilled employees, who are key success factors in banking sector, and, at the same time, to be reasonably linked to sustainable progressive performance, and achievement of both short and long-term targets.

The current "Employee Incentive Plan" of Boubyan Bank takes into consideration:

- Both financial and risk measures.
- Link to long-term targets (Strategic Objectives)
- Sensitivity to time horizons of risks.
- Claw back feature

During 2022, Boubyan Bank conducted a review of the Remuneration Policy and Scheme.

Board Remuneration

As per the by-laws and Article of Associations and in line with the Companies' Laws of the State of Kuwait, the Board of Directors may propose annual remuneration up to 10% of annual Net Profit after deducting the following appropriations:

- 10% of Net Profit as Statutory Reserves
- 10% of Net Profit as Voluntary Reserves
- 1% of Net Profit as Contribution to KFAS
- 5% of capital as dividends to the Shareholders.

In any case, remuneration to the Board should be subject to the approval of the shareholders in the Annual General Assembly.

As a current practice, the Board Directors are not entitled to attendance fees for the Board and/or Board Committees meetings, and/or any material in-kind benefits. Further, none of the Board Directors is entitled to any fixed salaries, except for the Vice-Chairman & Group CEO, who earns benefits as an employee for his executive role.

For the year 2022, the Board proposed annual remuneration of KD 580 thousand to be allocated to Directors of the Board as follows: KD 70 thousand to the Chairman, KD 55 thousand to each director acting as a member in the Management Executive Committee, KD 40 thousand for each remaining Board member, and KD 10 thousand for each chair of Board committees. This proposal is subject to the approval of shareholders in the General Assembly Meeting.

Employee Remuneration

The employees of the Bank are entitled to two categories of remuneration, which are as follows:

- Fixed Remuneration: such a remunerations is defined in the employment contracts, and include fixed salaries (i.e. basic salary, allowances and annual fixed pay as a percentage of the gross annual basic salary) and other benefits (i.e. medical insurance, air-tickets, and educational support).
- Variable Remuneration: such a remuneration is driven mainly by performance and guided by the "Employee Incentive Plan". This could be in the form of cash bonus, deferred cash bonus and/or Employee Stock Options (ESOP). The variable remuneration is reviewed by the Board Nomination and Remuneration Committee and approved by the Board of Directors.

The following table details the remuneration paid to certain employee categories for the year ended 31 December 2022:

Employees Categories	Number of Employees	Fixed Remuneration KD'000	Variable Remuneration KD'000		Total KD'000
			Cash	Deferred Cash	
Top Management	58	6,473	1,890	1,744	10,107
Material Risk Takers	26	3,134	1,014	962	5,110
Financial and Risk Control	17	1,322	313	270	1,905

Categories Definitions:

- Senior Management: It includes all staff in the positions of Assistant General Manager and above, and employees, whose hiring is subject to approval of regulators.
- Material Risk Takers: It includes all staff whose activities and decisions have a material impact on the risk profile of the bank.
- Financial and Risk Control: It includes all heads of divisions and heads of groups in Financial Control, Risk Management, Compliance, Internal Audit and Anti-Money Laundering functions.

The five senior executives who received the highest remuneration packages, plus the heads of Financial Control, Internal Audit and Risk Management groups (8 executives in total) received together as a group remuneration & salaries' package of KD 3,808 thousand for the year ended 31 December 2022.

Major Shareholders

As at December 31, 2022, the major shareholders owning or controlling more than 5% of the capital were as follows:

Name of Shareholder	Percentage of Ownership
National Bank of Kuwait S.A.K	60.143%
The Commercial Bank of Kuwait S.A.K	8.689%

ESG at Boubyan Bank

Boubyan Bank takes pride in being recognized as one of the domestic leaders amongst financial institutions who are conscious about giving back to the society through responsible business practices and practicing purpose-driven stakeholder capitalism in a true sense. This recognition emphasizes the Bank's focus on ESG through sound governance, minimal environmental degradation, and wellbeing of the people while abiding by the principles of Islamic Banking.

ESG at Boubyan Bank

Our Approach to ESG

Boubyan Bank is consciously aware of the shifting paradigm in the global financial landscape where Environmental, Social, and Governance (ESG) issues have become integral for businesses. The world today has united in taking actions, disseminating knowledge, and sharing tools to combat climate change. It is the collective responsibility of all businesses, including Boubyan Bank, to be mindful of these issues and embed ESG considerations in business decision making. This has made the Bank embark on a journey of ESG-integrated sustainable growth since the last few years. The Bank is aware that ESG aspects are important to evaluate along with other aspects of Boubyan's performance, growth, and positioning as a leader in digital Banking. The Bank has started on the journey of formulating an ESG strategy which shall be integrated into the enterprise business strategy and functions. The existing policies and frameworks are also being modified to incorporate ESG aspects as much as possible.

The Bank's third sustainability report for the year 2022 will highlight the progress made on ESG aspects across four dimensions – namely Workplace, Marketplace, Community and Environment. The sustainability reports are being developed in accordance with the internally recognized and comprehensive Global Reporting Initiative (GRI) framework (core option). The reports are also built on a foundation of several international and national frameworks and enablers, including, the United Nations' Sustainable Development Goals (SDGs), New Kuwait Vision 2035, and Boursa Kuwait. Specifically, Boubyan's third sustainability report demonstrates the Bank's alignment with Kuwait's Net Zero 2060 Plan and with the Central Bank of Kuwait's (CBK) Principles.

Our ESG Aspirations and Progress in 2022

In 2022, the Bank advanced Boubyan's ESG performance by further integrating ESG criteria into business operations, decision making and offered products through formulating a well-defined ESG strategy that is in line with Boubyan's corporate strategy, material ESG aspects and regulators' requirements. Making progress on the journey of sustainable growth, the Bank has assessed the ESG maturity level including pillars and sub areas to further prioritize the upcoming ESG activities and directions. Boubyan Bank's management continues to support the community with responsible products and services. With a forward-looking mindset, the Bank is looking to embed sustainable finance in the product offerings and investments process at the earliest.

Our ESG Focus Areas

Stakeholder Engagement on ESG issues

Boubyan Bank is committed to keep internal and external stakeholders engaged throughout its ESG integration process, as well as keep them well-informed on the resulting performance outcomes. The Bank strongly believes that stakeholder relationship is one of the key drivers for long term business sustainability. To effectively engage with the key stakeholders, Boubyan culminated a collaborative approach that sees these relationships as reciprocal, evolving, and mutually defined in nature. Stakeholder feedback helps the Bank recognize important developments in society and markets and align the ESG strategy for long term value creation.

Environmental Material Topics in 2022

Boubyan Bank seeks to minimize the impact of the Bank's operations, direct and indirect, on the environment. The primary areas of focus in 2022 include paper-usage reduction and measurement of environmental footprint (such as energy consumption, greenhouse gas emissions, water consumption, waste management). The Bank believes that only though persistent measurement, assessment and leveraging reduction opportunities can the environmental impacts be reduced.

The bank undertook environmental initiatives and collaborations in 2022 covering aspects such as transitioning to LED lighting in buildings, reducing paper usage through automation and digitization, recycling initiatives to minimize our carbon footprint, initiating green loans for retail customers, and collaborating with business partners to measure and manage our carbon footprint, amongst others.

Social Material Topics in 2022

Boubyan emphasizes that employees have a strong influence on the organization's growth and success. We have implemented a healthy approach to ensure that our people feel motivated and are aligned with our goals and commitments. The primary areas of focus in 2022 for the social aspects involved Corporate Social Responsibility (CSR) activities, human capital management, learning and development, customer advocacy, empowering Small to Medium Enterprises (SMEs), and health, safety and wellbeing of our stakeholders.

The social initiatives and collaborations of the Bank in 2022 cover aspects such as initiatives on employee health and wellbeing, youth development, female-focused product development to empower women and embedding social Key Performance Indicators (KPIs) into employee performance evaluation.

Governance Material Topics in 2022

Boubyan Bank's responsible corporate governance holds the key in achieving long term business growth. Boubyan strives to achieve very high ethical standards in all dealings and reinforces them through clearly defined governance structures, policies, and procedures. The primary areas of focus in 2022 included transparency, compliance and ethical practices, proactive risk management, innovative digital solutions and data privacy and information security.

Focussing on the above-mentioned aspects, the initiatives of the Bank in 2022 focussed on testing of Information Technology and Information Security systems, conducting awareness trainings on fraud prevention, Information Security and customer data management best-practices, amongst others.

Boubyan Reinforces Its CSR Leadership in 2022

The year 2022 confirmed Boubyan Bank's status as one of the best banks in Kuwait and the region in terms of its efforts to give back to the society, which crowned the bank with the "Best Bank for CSR Award" by Euromoney International, in recognition of its achievements over the past years as well as its sustainable CSR role that contributes to Kuwait's journey of development and growth.

Receiving this international award was the result of a thorough assessment by an international panel of judges. This reflects the distinction and leadership position enjoyed by the bank in organizing events and taking initiatives that highlighted its domestic leadership as to serving the society, and reiterating its CSR leadership position in Kuwait. This leadership was confirmed whether on the quantitative or qualitative levels in terms of setting targets aiming at confirming the importance of the private sector's contribution to building the Kuwaiti society.

What made Boubyan Bank stand out over the past years was its approach towards CSR which is not confined to a single department in terms of performance; rather, all the bank's departments and branches are socially responsible and are considered key participants in building our society. The bank's employees are key partners in serving the society, and we - together - support CSR efforts.

5th Noor Boubyan

The year 2022 saw the strong return of Noor Boubyan Campaign for eyesight-restoration surgeries in Africa, where Boubyan's delegation of volunteers visited the Islamic Republic of Mauritania to perform 1,000+ surgeries by Kuwaiti volunteer doctors in collaboration with the International Islamic Charitable Organization and the Dinarain Initiative succeeded in confirming the renowned charitable and humanitarian role of Kuwait worldwide, by achieving the campaign's goals of successful removal of cataract, along with other charitable activities.
Noor Boubyan is no longer a campaign that merely targets eyesight-restoration as it is now considered one of the most important humanitarian campaigns that confirms Kuwait as a leader in charity work in the four corners of the world.

The campaign also included a number of events and activities that highlight the bank's charitable and humanitarian work, including a competition for the Glorious Qur'an that saw the participation of more than 500 Mauritanian participants in addition to other events and activities organized for orphans and widows, along with the inauguration of many charitable Kuwaiti projects.

Supporting the Youths and Small Businesses

The bank continued its support to projects of Kuwaiti youths, and kept pace with youths' trends by organizing the 5th Kuwait Coffee Festival with the participation of a number of small businesses of young Kuwaitis. The festival attracted more than 65,000 visitors over two days, thus making it the biggest event in Kuwait over the past five years.

The bank also sponsored the Annual Conference of the National Union of Kuwaiti Students in the United States of America "NUKS, USA" in November 2022, and signed a partnership agreement with Padel IN in order to help promote the game among Kuwaiti youths of both genders as the game is gaining grounds globally and regionally.

Moreover, Boubyan Bank organized Boubyan's Cube Challenge over 3 days at Al Assima Mall. This included a number of events and activities revolving around solving Rubik's Cube, one of the most globally widespread mind puzzles, which still sees a lot of interest from many people around the world. The bank further organized the biggest billiard tournament with the participation of more than 128 players.

Focus on Health and Sports

Boubyan Bank continued launching and sponsoring initiatives that focus on health and sports as it sponsored the Family Medicine Marathon 2022 at Al Shaheed Park, which was organized by Kuwait Medical Association. Moreover, the bank organized Boubyan Cycling Race that was open for the bank's customers and non-customers at Kuwait Motor Town in October 2022 with the participation of a number of participants, aged 18 and above, with prizes exceeding KD 2,500 in value.

The idea of the Cycling Race came in memory of one of the bank's late female employee, Engineer Alaa Maeen Al-Otaibi - Contracts Department, who passed away while biking almost one year ago.

Activities of the Holy Month of Ramadan

Boubyan continued organizing Boubyan Steps Campaign for the 9th consecutive year to encourage citizens and residents to exercise walking during the Holy Month of Ramadan. As was the case in prior years, the revenue of that campaign was directed to eyesight-restoration operations in Africa.

The bank also launched (Hal Mara Agdar) challenge organized by Nutribox. This was an interactive wellness challenge that aimed to empower the community to become their healthiest selves during the month of Ramadan. The challenge was organized virtually, and everyone participated through the App's innovative tech-powered wellness platform.

Additionally, the bank organized its annual "Recite with Boubyan" competition for the memorization and recitation of the Glorious Qur'an for the 8th year in a row. The competition was held for Boubyan Bank's Al Ghaly & Prime accounts' customers in addition to customers' children only. Thousands of both genders participated in the competition.

Furthermore, the bank continued with its voluntary initiative, Neqsat Boubyan, where Boubyan Team of Volunteers prepared and distributed food supplies of the Holy Month of Ramadan to needy families and workers in an initiative from the bank to take some burdens off the shoulders of these families.

Environment and Sustainability

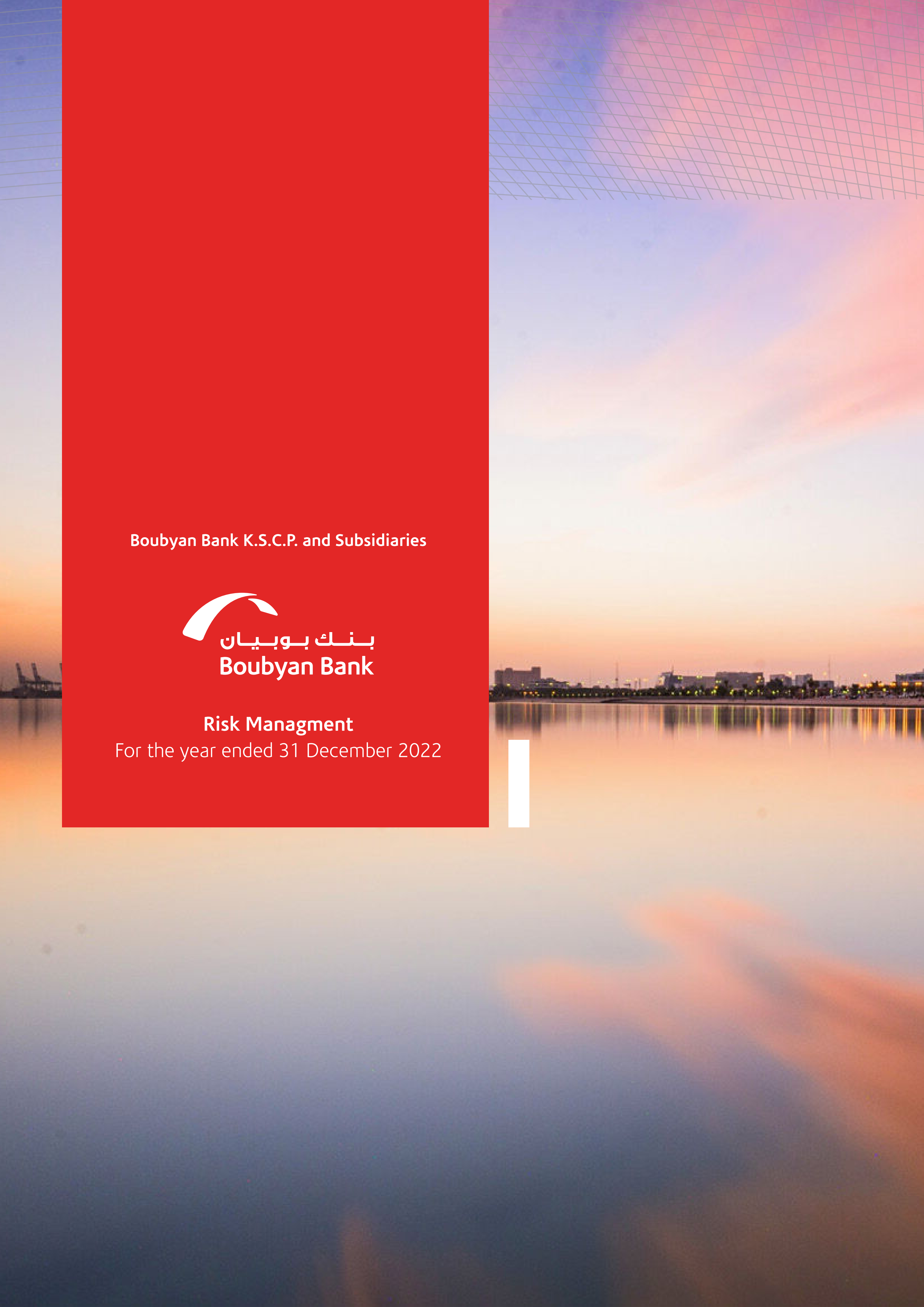
For the first time in Kuwait, the bank took steady steps in the right path towards reinforcing its sustainability approach by launching its "Go Green" initiative. This became the first initiative of its kind among institutions in Kuwait that allows customers to own electric cars in collaboration with BNK Agency for Hybrid Cars in Kuwait.

Additionally, the bank started reducing the use of plastic across all its branches and main buildings to contribute to safeguarding our environment and to reduce plastic waste, which is among most hazardous materials to our environment. This was under the slogan of "Start with Yourself" to cancel most of daily usage of plastics.

The Be Aware Campaign "Diraya"

In 2022, Boubyan Bank continued supporting Diraya campaign emanating from the belief in the significant role played by local banks in spreading awareness about their various activities and banking operations undertook in cooperation with the Central Bank of Kuwait and Kuwait Banking Association.

This came out of Boubyan's keenness to increase the level of awareness among customers and non-customers, especially in light of the challenges facing banks due to the developments witnessed in the world across all aspects, which makes the role of banks more important in increasing banking awareness.



Boubyan Bank K.S.C.P. and Subsidiaries

Risk Managment

For the year ended 31 December 2022

1. INRODUCTION AND OVERVIEW

Boubyan Bank K.S.C.P and its subsidiaries (the "Group") have achieved significant growth becoming a large group with international operations and a diversified portfolio of financial services. It is now regulated by top internationally recognized regulators starting from the Central Bank of Kuwait (CBK), Capital Markets Authority (CMA), and Prudential Regulation Authority (PRA). The Risk Management Group (RMG) at Boubyan Bank is responsible for the risk management and oversight for the Group through adopting a comprehensive Enterprise Risk Management framework that is cascaded across the Group. Through this comprehensive framework, the Group has adopted various controls and tools including, but not limited to:

- Acting as a second line of defense through its proper monitoring and identification of key risks. This is supported by a robust technology infrastructure.
- A forward-looking Risk Appetite framework which is a key input in developing business and capital plans and performance measurement.

The Group maintains its overall oversight and accountability through the Board Risk and Compliance Committee (BRCC). The BRCC is responsible for overseeing the Group's Risk and Compliance functions and their associated strategies and policies and monitors their adherence to these. The Group Chief Risk Officer (GCRO) and the Group Head of Compliance assist the BRCC in achieving these objectives.

In June 2014, Central Bank of Kuwait (CBK) issued directives on the adoption of the Capital Adequacy Standards (Basel III) under the Basel Committee framework applicable to licensed Islamic banks in Kuwait, effectively replacing and superseding the earlier requirements under the circular issued in 2009, Basel framework (Basel II). The reforms strengthen the quality of capital and introduced several buffer requirements in line with proposals made by the Basel Committee on Banking Supervision (BCBS). The CBK Basel 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 pertains to the Supervisory Review Process and emphasises the importance of Internal Capital Adequacy Assessment Process (ICAAP) performed by banks.

In line with the above mentioned CBK guidelines, these disclosures include information on the Group's risk management objectives and policies, risk assessment processes, capital management and capital adequacy.

Detailed information on risk assessment includes:

- Risk weighted assets of the Group - credit risk, market risk and operational risk
- Credit risk profile of gross credit exposure by counterparty classifications and economic activity.
- Profile of gross credit exposure by economic activity, geographical region and maturity
- Profile of credit risk mitigation by economic activity
- Profile of impaired loans by economic activity and geographical region

Information on capital adequacy includes:

- Capital adequacy computation
- Capital profile – CET 1, Tier I and Tier II

2. REGULATORY SCOPE OF CONSOLIDATION

The core activities of the Bank and its subsidiaries (collectively the "Group") are retail, corporate, insurance, investment banking, and asset management, in accordance with Codes of the Islamic Sharia'a, as approved by the Group's Sharia'a Supervisory Board. For further details on the Group's activities, please refer to note 29 of the Group's consolidated financial statements.

The consolidated financial statements and capital adequacy regulatory reports of the Group have been prepared and consolidated on a consistent basis, unless otherwise disclosed. For additional information on the basis of preparation and basis of consolidation please refer to notes 2 and 3.1 of the Group's consolidated financial statements for the year ended 31 December 2022.

The principal subsidiaries of the Group are presented in the note 15 of the Group's consolidated financial statements. All subsidiaries have been fully consolidated under the regulatory scope of consolidation for regulatory capital calculations.

Significant investments in banking, financial and insurance entities that are outside the scope of regulatory consolidation are required to be subject to the threshold treatment prescribed under the CBK Basel III rules and are risk-weighted and/or capital deducted.

- All the significant investments in banking and financial entities classified as associates have been subject to the threshold treatment and risk-weighted as prescribed.
- Other significant investments in banking and financial entities classified as equities have been subject to the threshold treatment and risk-weighted as prescribed.

Other 'minority' investments in banking, financial and insurance entities classified as equities have been subject to the prescribed threshold treatment and risk-weighted as required.

3. CAPITAL STRUCTURE

The Group's regulatory capital comprises:

a) Common Equity Tier 1 (CET1) Capital which is considered as the core measure of the Group's financial strength and includes share capital, share premium, eligible reserves and retained earnings net of regulatory adjustments,

b) Additional Tier 1 (AT1) Capital which consists of perpetual tier 1 Sukuk and eligible portion of non-controlling interests, and,

c) Tier 2 (T2) capital which consists of the allowed portions of general provisions and eligible portion of non-controlling interests.

The Bank's share capital as at 31 December 2022 comprised **3,738,682,484** (31 December 2021 comprised 3,179,697,604) issued and fully-paid up equity shares.

The regulatory capital for the Group is detailed below:

Table 1	**2022** **KD '000s**	2021 KD '000s
Regulatory Capital		
Common Equity Tier 1 Capital	**777,787**	567,528
Additional Tier 1 Capital	**152,708**	149,544
Tier 1 Capital	**930,495**	717,072
Tier 2 Capital	**64,445**	58,354
Total Regulatory Capital	**994,940**	775,426

4. CAPITAL ADEQUACY RATIOS

The Group ensures adherence to CBK's requirements by monitoring its capital adequacy. The Group's capital forecasting process ensures pro-active actions and plans are in place to ensure that a sufficient capital buffer above minimum levels is in place at all times. This process takes into consideration regulatory capital requirements, stress-testing and the Group's business plans.

The Minimum Capital Requirements (MCR) and The Capital Adequacy Ratios (CAR) for the Group under the various levels of regulatory capital expressed as a percentage of risk-weighted assets are detailed below:

	2022		2021	
Table 2	**MCR***	**CAR**	MCR*	CAR
Common Equity Tier 1 capital adequacy ratio	**10.50%**	**15.14%**	10.50%	12.00%
Tier 1 capital adequacy ratio	**12.00%**	**18.11%**	12.00%	15.17%
Total Regulatory capital adequacy ratio	**14.00%**	**19.37%**	14.00%	16.40%

* includes 2.5% capital conservation buffer and 1% D-SIB buffer (2021: 1% D-SIB buffer) which are to be met through CET1 capital.

The countercyclical capital buffer has not been required for the year ended 31 December 2022 in the MCR.

5. PROFILE OF RISK-WEIGHTED ASSETS AND CAPITAL CHARGE

The Group's risk-weighted capital requirements for credit, market and operational risks are shown below.

5.1 Credit risk

The Minimum Capital requirement (MCR) in respect of credit risk as at 31 December 2022 is **KD 621,959 thousand** (31 December 2021: KD 573,643 thousand) as detailed below:

	2022			2021		
	Gross credit exposure	**Risk weighted assets**	**Minimum capital requirement**	Gross credit exposure	Risk weighted assets	Minimum capital requirement
Table 3	**KD '000s**	**KD '000s**	**KD '000s**	KD '000s	KD '000s	KD '000s
Cash	**80,049**	**-**	**-**	39,086	-	-
Claims on sovereigns	**926,655**	**101,354**	**13,176**	745,167	83,665	10,876
Claims on international organisations	**122,546**	**-**	**-**	115,368	-	-
Claims on public sector Entities	**399,105**	**131,755**	**17,128**	288,826	42,252	5,493
Claims on MDBs	**82,939**	**24,515**	**3,187**	60,700	14,392	1,871
Claims on banks	**514,978**	**135,501**	**17,615**	628,623	118,280	15,376
Claims on corporates	**3,190,816**	**2,261,483**	**293,993**	3,015,539	2,142,600	278,538
Regulatory retail exposure	**2,433,789**	**1,709,671**	**222,257**	2,360,642	1,673,042	217,495
Past due exposure	**50,763**	**34,144**	**4,439**	50,777	36,988	4,808
Investments in real estate	**33,618**	**67,236**	**8,741**	21,706	43,412	5,644
Investments and financing to customers	**76,680**	**95,438**	**12,407**	65,937	92,193	11,985
Sukuk exposures	**16,475**	**11,574**	**1,505**	17,345	12,293	1,598
Other exposures*	**401,966**	**211,626**	**27,511**	303,806	153,519	19,959
	8,330,379	**4,784,297**	**621,959**	7,713,522	4,412,636	573,643

*Other exposures above includes a threshold deduction of **KD Nil** (31 December 2021: KD Nil) and an amount of **KD 123,555 thousand** negative (31 December 2021: KD 102,035 thousand negative) representing the amount of general provision in excess of a maximum of 1.25% of Credit Risk weighted assets, which is allowed in arriving at Tier 2 Capital.

5.2 Market risk:

The total Minimum Capital requirement (MCR) in respect of market risk was **KD 641 thousand** arising only from foreign exchange risk, (31 December 2021: KD 232 thousand).

5.3 Operational Risk:

The Minimum Capital requirement (MCR) in respect of operational risk was **KD 45,226 thousand**, (31 December 2021: KD 40,709 thousand). This Minimum Capital requirement (MCR) was computed using the Basic Indicator Approach by multiplying the three-year average gross income by a pre-defined beta factor.

6. GROUP RISK MANAGEMENT

The Group's business operations require identification, measurement, aggregation and effective management of risks and efficient allocation of capital to derive an optimal risk/return ratio. The Bank manages its risks in a structured, systematic and transparent manner through a risk policy which embeds comprehensive risk management into the organisational structure, risk measurement and monitoring processes. The Group's Risk Management function is independent of business units; it reports directly to the Risk and Compliance Committee of the Board and takes a holistic and objective approach to assist the Board and Executive Management in managing the Group's risks. Group risk oversight includes subsidiaries ensuring compliance with the group risk appetite and local laws and regulations.

During 2009 the Bank augmented its overall framework for governance and capital planning and management by undertaking an Internal Capital Adequacy Assessment Process (ICAAP), which includes "scenario testing" at periodic, regular intervals. Amongst the key objectives of the ICAAP is to quantify potential risks that the Bank faces and are not covered under Pillar I.

The Bank has updated its ICAAP assessment to reflect the growth and complexity of its Business Model and changes to its risk infrastructure.

6. GROUP RISK MANAGEMENT (CONTINUED)

In line with the guidelines from the Basel Committee and Central Bank of Kuwait, key principles of the Group's ICAAP include:

- Responsibilities of the Board and Senior Management.
- Sound Capital Management.
- Comprehensive assessment of Pillar II risks, e.g., Credit (sector and name concentration), Profit Rate Risk, Liquidity, Legal, Reputational and Strategic Risks, Residual Market Risk, Residual Operational Risk and Sharia Risk
- Monitoring and reporting.
- Control and review of the process.

The key features of the Group's comprehensive Risk Management Policy are:

- The Board of Directors provides overall risk management direction and oversight.
- The Group's risk appetite is proposed by the Management Executive Committee and approved by the Board of Directors.
- Risk management is embedded in the Bank as an intrinsic process and is a core competency of all its employees.
- The Bank manages its credit, market, operational and liquidity risks in a co-ordinated manner within the organisation.
- The Group's Internal Audit function reports to the Board Audit Committee 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 bank-wide basis.

The risk management function assists Executive Management in controlling and actively managing the Group's overall risks.

The function also ensures that:

- The Group's overall business strategy is consistent with its risk appetite approved by the Board of Directors.
- Risk policies, procedures and methodologies are consistent with the Group's risk appetite.
- Appropriate risk management architecture and systems are developed and implemented.
- Risks and limits of the portfolio are monitored throughout the Bank.

The Bank regularly assesses the adequacy and effectiveness of its Risk Management Framework in the light of the changing risk environment.

6.1 Scope and nature of risk reporting tools

The comprehensive Risk Management Framework enables the Bank to identify, assess, limit and monitor risks using a comprehensive 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 generation of information such as:

- Credit risk in corporate and consumer financing and other asset exposures, such as collateral coverage ratio, limit utilisation, past-due alerts, etc.
- Quantification of the susceptibility of the market value of single positions or portfolios to changes in market parameters (commonly referred to as sensitivity analysis).
- Quantification of exposure to losses due to extreme movements in market prices or rates.

The Bank regularly assesses the adequacy and effectiveness of its reporting tools and metrics in light of the changing risk environment.

6.2 Risk management processes

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

The key risks assumed by the Bank in its daily operations are outlined below:

6. GROUP RISK MANAGEMENT (CONTINUED)

6.2 Risk management processes (continued)

6.2.1 Credit risk

Credit risk is defined as the likelihood that a customer or counterparty is unable to meet the contracted financial obligations resulting in a default situation and/or financial loss. These risks arise in the Group's normal course of business.

6.2.2 Credit risk management strategy

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

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

6.2.3 Credit risk management structure and governance

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

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

In compliance with CBK regulations, financing to individual Board Members and related parties is fully secured and monitored by the Board Executive Committee. 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 of Directors in line with the relative authorities from the Shareholders' General Assembly.

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

6.2.4 Key features of corporate credit risk management

- Credit facilities are granted based on detailed credit risk assessments which consider the purpose of the facility and source of repayment, prevailing and potential macro-economic factors, industry trends and the customer's positioning within its industry peer.
- Internal credit-rating models are regularly reviewed by the Bank's risk management function in co-ordination with line management and the Management Credit Committee (MCC) and continually enhanced in line with industry credit risk management "best practices".
- All new proposals and / or material changes to existing credit facilities are reviewed and approved by either the Board Executive Committee (BEC) or the Management Credit Committee (MCC).
- 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.

6. GROUP RISK MANAGEMENT (CONTINUED)

6.2 Risk management processes (continued)

6.2.4 Key features of consumer credit risk management (continued)

- Oversight of consumer finance risk is undertaken by an independent unit directly within Bank Risk Management. 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.
- 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 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 & policies. The third line of defence, the Internal Audit function, independently tests, verifies and evaluates controls for effective credit risk management and implementation of policies & procedures.
- All significant financing policies and amendments to policies are reviewed annually by the Management Executive Committee and approved by the Board.
- The Consumer Financing risk assessment uses risk "scorecard" customer-centric methodologies which incorporate CBK regulatory guidelines and Bank policies related to consumer financing facilities, such as debt-to-income ratio, minimum qualifying income and limits on advances by product type. Additional inputs utilised include applicant characteristics obtained from financing bureaus, particularly Kuwait Credit Bureau report, to assist in assessing an applicant's ability to repay and the probability of default. This model is reviewed and refined continually.

6.2.5 Group's 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.

Consumer credit risk reporting also includes a "dashboard" for consumer financing, classification and delinquency monitoring.

A specialised and focused team on recovery and collections handles the management and collection of irregular financing facilities.

6.2.6 Group's credit risk mitigation strategy

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 Bank limits its financing concentration per entity to specific percentage of the Group's regulatory capital.

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

6. GROUP RISK MANAGEMENT (CONTINUED)

6.2 Risk management processes (Continued)

6.2.7 Management of credit collateral and valuation

The main types of collateral accepted by the Bank include:

- cash collateral;
- quoted shares and units in collective investment schemes;
- bank guarantees;
- commercial and residential real estate; and
- eligible debt instruments (principally sovereign and bank obligors).

In accordance with the Group's credit policies, banks and creditworthy companies and individuals with high net worth are accepted as guarantor counterparties, subject to credit risk assessment. Furthermore, in accordance with the CBK Basel III framework, only cash collateral, guarantees from banks with defined high credit-quality ratings, quoted shares, eligible debt instruments and units in collective investment schemes are recognized as risk mitigation for capital adequacy purposes.

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

The Group's credit exposures were covered by the following eligible financial collateral:

	2022		2021	
	Gross credit exposure	**Eligible Credit Risk Mitigation**	Gross credit exposure	Eligible Credit Risk Mitigation
Table 4	**KD '000s**	**KD '000s**	KD '000s	KD '000s
Cash	**80,049**	**-**	39,086	-
Claims on sovereigns	**926,655**	**-**	745,167	-
Claims on international organisations	**122,546**	**-**	115,368	-
Claims on public sector Entities	**399,105**	**-**	288,826	-
Claims on MDBs	**82,939**	**-**	60,700	-
Claims on banks	**514,978**	**-**	628,623	-
Claims on corporates	**3,190,816**	**245,991**	3,015,539	268,270
Regulatory retail exposure	**2,433,789**	**-**	2,360,642	-
Past due exposure	**50,763**	**5,601**	50,777	2,271
Investments in real estate	**33,618**	**-**	21,706	-
Investments and financing to customers	**76,680**	**5,911**	65,937	4,208
Sukuk exposures	**16,475**	**-**	17,345	-
Other exposures	**401,966**		303,806	-
	8,330,379	**257,503**	7,713,522	274,749

6. GROUP RISK MANAGEMENT (CONTINUED)

6.2 Risk management processes (continued)

6.2.8 Gross, average and net credit exposures

The Group's gross credit exposures, average credit exposures and net credit exposures, the former adjusted for credit risk mitigation factors, respectively, are detailed below:

	2022			2021		
Table 5	**Gross credit exposure KD '000s**	**Self-funded exposure KD '000s**	**Funded through investments accounts exposure KD '000s**	Gross credit exposure KD '000s	Self-funded exposure KD '000s	Funded through investments accounts exposure KD '000s
Cash	**80,049**	**50,600**	**29,449**	39,086	16,449	22,637
Claims on sovereigns	**926,655**	**375,289**	**551,366**	745,167	311,096	434,071
Claims on international organisations	**122,546**	**49,630**	**72,916**	115,368	48,164	67,204
Claims on public sector Entities	**399,105**	**171,407**	**227,698**	288,826	139,218	149,608
Claims on MDBs	**82,939**	**35,814**	**47,125**	60,700	36,155	24,545
Claims on banks	**514,978**	**276,079**	**238,899**	628,623	308,061	320,562
Claims on corporates	**3,190,816**	**1,686,707**	**1,504,109**	3,015,539	1,656,311	1,359,228
Regulatory retail exposure	**2,433,789**	**985,669**	**1,448,120**	2,360,642	985,535	1,375,107
Past due exposure	**50,763**	**25,735**	**25,028**	50,777	27,385	23,392
Investments in real estate	**33,618**	**33,618**	**-**	21,706	21,706	-
Investments and financing to customers	**76,680**	**58,874**	**17,806**	65,937	62,951	2,986
Sukuk exposures	**16,475**	**6,672**	**9,803**	17,345	7,241	10,104
Other exposures	**401,966**	**263,187**	**138,779**	303,806	203,008	100,798
	8,330,379	**4,019,281**	**4,311,098**	7,713,522	3,823,280	3,890,242

	2022			2021		
Table 6	***Average credit exposure KD '000s**	***Average Self-funded exposure KD '000s**	***Average Funded through investments accounts exposure KD '000s**	*Average credit exposure KD '000s	*Average Self-funded exposure KD '000s	*Average Funded through investments accounts exposure KD '000s
Cash	**72,962**	**44,609**	**28,353**	41,917	17,282	24,635
Claims on sovereigns	**798,277**	**332,623**	**465,654**	705,552	288,893	416,659
Claims on international organisations	**120,901**	**50,443**	**70,458**	105,245	43,157	62,088
Claims on public sector Entities	**385,314**	**172,196**	**213,118**	262,018	131,229	130,789
Claims on MDBs	**61,396**	**31,511**	**29,885**	50,382	33,437	16,945
Claims on banks	**601,647**	**311,013**	**290,634**	721,101	348,393	372,708
Claims on corporates	**3,090,917**	**1,666,978**	**1,423,939**	2,979,013	1,608,097	1,370,916
Regulatory retail exposure	**2,428,733**	**1,013,869**	**1,414,864**	2,122,825	868,760	1,254,065
Past due exposure	**45,774**	**23,478**	**22,296**	48,206	22,752	25,454
Investments in real estate	**28,792**	**28,792**	**-**	40,789	40,789	-
Investments and financing to customers	**70,425**	**55,810**	**14,615**	78,652	67,568	11,084
Sukuk exposures	**16,670**	**6,960**	**9,710**	17,419	7,101	10,318
Other exposures	**384,609**	**256,753**	**127,856**	292,336	188,872	103,464
	8,106,417	**3,995,035**	**4,111,382**	7,465,455	3,666,330	3,799,125

* Based on quarterly average balances

6. GROUP RISK MANAGEMENT (CONTINUED)

6.2 Risk management processes (continued)

6.2.8 Gross, average and net credit exposures (continued)

	2022			2021		
	Net credit exposure	**Self-funded exposure**	**Funded through investments accounts exposure**	Net credit exposure	Self-funded exposure	Funded through investments accounts exposure
Table 7	**KD '000s**	**KD '000s**	**KD '000s**	KD '000s	KD '000s	KD '000s
Cash	**80,049**	**50,600**	**29,449**	39,086	16,449	22,637
Claims on sovereigns	**926,655**	**375,289**	**551,366**	745,167	311,096	434,071
Claims on international organisations	**122,546**	**49,630**	**72,916**	115,368	48,164	67,204
Claims on public sector Entities	**399,105**	**171,407**	**227,698**	288,826	139,218	149,608
Claims on MDBs	**82,939**	**35,814**	**47,125**	60,700	36,155	24,545
Claims on banks	**514,978**	**276,079**	**238,899**	628,623	308,061	320,562
Claims on corporates	**2,944,825**	**1,578,142**	**1,366,683**	2,747,269	1,537,932	1,209,337
Regulatory retail exposure	**2,433,789**	**985,669**	**1,448,120**	2,360,642	985,535	1,375,107
Past due exposure	**45,162**	**23,467**	**21,695**	48,506	26,436	22,070
Investments in real estate	**33,618**	**33,618**	**-**	21,706	21,706	-
Investments and financing to customers	**70,769**	**56,480**	**14,289**	61,729	61,194	535
Sukuk exposures	**16,475**	**6,672**	**9,803**	17,345	7,241	10,104
Other exposures	**401,966**	**263,185**	**138,781**	303,806	203,009	100,797
	8,072,876	**3,906,052**	**4,166,824**	7,438,773	3,702,196	3,736,577

As at 31 December 2022, **23.0%** of the Group's net credit risk exposure was rated by accredited External Credit Assessment Institutions (ECAIs), (31 December 2021: 23.1%) as detailed below:

	2022			2021		
	Net credit exposure	**Rated exposure**	**Unrated exposure**	Net credit exposure	Rated exposure	Unrated exposure
Table 8	**KD '000s**	**KD '000s**	**KD '000s**	KD '000s	KD '000s	KD '000s
Cash	**80,049**	**-**	**80,049**	39,086	-	39,086
Claims on sovereigns	**926,655**	**926,655**	**-**	745,167	745,167	-
Claims on international organisations	**122,546**	**122,546**	**-**	115,368	115,368	-
Claims on public sector Entities	**399,105**	**121,046**	**278,059**	288,826	89,612	199,214
Claims on MDBs	**82,939**	**82,939**	**-**	60,700	60,700	-
Claims on banks	**514,978**	**514,978**	**-**	628,623	627,296	1,327
Claims on corporates	**2,944,825**	**-**	**2,944,825**	2,747,269	-	2,747,269
Regulatory retail exposure	**2,433,789**	**-**	**2,433,789**	2,360,642	-	2,360,642
Past due exposure	**45,162**	**-**	**45,162**	48,506	-	48,506
Investments in real estate	**33,618**	**-**	**33,618**	21,706	-	21,706
Investments and financing to customers	**70,769**	**-**	**70,769**	61,729	-	61,729
Sukuk exposures	**16,475**	**16,475**	**-**	17,345	17,345	-
Other exposures	**401,966**	**74,344**	**327,622**	303,806	61,046	242,760
	8,072,876	**1,858,983**	**6,213,893**	7,438,773	1,716,534	5,722,239

The Group uses external ratings (where available) to supplement internal ratings during the process of determining credit limits. Unrated public issue instruments are risk-weighted at 100% for capital adequacy purposes.

6. GROUP RISK MANAGEMENT (CONTINUED)

6.2 Risk management processes (continued)

6.2.8 Gross, average and net credit exposures (continued)

The geographical distribution of the gross credit exposure before taking into consideration credit enhancements is as detailed below:

31 December 2022	**Middle East**	**North America**	**Europe**	**Asia and Other**	**Total**
Table 9	**KD '000s**	**KD '000s**	**KD '000s**	**KD '000s**	**KD '000s**
Cash	**49,502**	**-**	**30,547**	**-**	**80,049**
Claims on sovereigns	**920,299**	**-**	**-**	**6,356**	**926,655**
Claims on international organisations	**-**	**-**	**-**	**122,546**	**122,546**
Claims on public sector Entities	**387,706**	**-**	**10,906**	**493**	**399,105**
Claims on MDBs	**82,939**	**-**	**-**	**-**	**82,939**
Claims on banks	**418,758**	**28,231**	**66,860**	**1,129**	**514,978**
Claims on corporates	**2,763,658**	**-**	**427,158**	**-**	**3,190,816**
Regulatory retail exposure	**2,433,789**	**-**	**-**	**-**	**2,433,789**
Past due exposure	**42,814**	**-**	**7,949**	**-**	**50,763**
Investments in real estate	**26,953**	**-**	**6,665**	**-**	**33,618**
Investments and financing to customers	**29,926**	**-**	**46,754**	**-**	**76,680**
Sukuk exposures	**16,475**	**-**	**-**	**-**	**16,475**
Other exposures	**315,066**	**70,249**	**16,651**	**-**	**401,966**
	7,487,885	**98,480**	**613,490**	**130,524**	**8,330,379**

31 December 2021	Middle East	North America	Europe	Asia and Other	Total
Table 9	KD '000s	KD '000s	KD '000s	KD '000s	KD '000s
Cash	38,861	-	225	-	39,086
Claims on sovereigns	738,258	-	-	6,909	745,167
Claims on international organisations	-	-	-	115,368	115,368
Claims on public sector Entities	271,035	-	17,201	590	288,826
Claims on MDBs	60,700	-	-	-	60,700
Claims on banks	442,938	22,914	153,904	8,867	628,623
Claims on corporates	2,558,348	-	457,191	-	3,015,539
Regulatory retail exposure	2,360,642	-	-	-	2,360,642
Past due exposure	41,236	-	9,541	-	50,777
Investments in real estate	17,086	-	4,620	-	21,706
Investments and financing to customers	5,127	-	60,810	-	65,937
Sukuk exposures	17,345	-	-	-	17,345
Other exposures	260,186	31,173	12,447	-	303,806
	6,811,762	54,087	715,939	131,734	7,713,522

6. GROUP RISK MANAGEMENT (CONTINUED)

6.2 Risk management processes (continued)

6.2.8 Gross, average and net credit exposures (continued)

The Group's gross credit exposure by residual contractual maturity is as detailed below:

31 December 2022 Table 10	**Up to 3 months KD '000s**	**3 – 6 months KD '000s**	**6 – 12 months KD '000s**	**Over 1 year KD '000s**	**Total KD '000s**
Cash	**80,049**	**-**	**-**	**-**	**80,049**
Claims on sovereigns	**627,340**	**52,353**	**-**	**246,962**	**926,655**
Claims on international organisations	**100,780**	**21,766**	**-**	**-**	**122,546**
Claims on public sector Entities	**224,215**	**119,408**	**1,019**	**54,463**	**399,105**
Claims on MDBs	**60,737**	**-**	**-**	**22,202**	**82,939**
Claims on banks	**265,737**	**98,913**	**10,918**	**139,410**	**514,978**
Claims on corporates	**2,248,662**	**348,365**	**229,174**	**364,615**	**3,190,816**
Regulatory retail exposure	**1,430**	**3,356**	**14,724**	**2,414,279**	**2,433,789**
Past due exposure	**50,763**	**-**	**-**	**-**	**50,763**
Investments in real estate	**-**	**-**	**-**	**33,618**	**33,618**
Investments and financing to customers	**43,882**	**15,494**	**11,913**	**5,391**	**76,680**
Sukuk exposures	**-**	**-**	**-**	**16,475**	**16,475**
Other exposures	**-**	**-**	**15,364**	**386,602**	**401,966**
	3,703,595	**659,655**	**283,112**	**3,684,017**	**8,330,379**

31 December 2021 Table 10	Up to 3 months KD '000s	3 – 6 months KD '000s	6 – 12 months KD '000s	Over 1 year KD '000s	Total KD '000s
Cash	39,086	-	-	-	39,086
Claims on sovereigns	485,077	58,487	3,035	198,568	745,167
Claims on international organisations	86,956	28,412	-	-	115,368
Claims on public sector Entities	146,051	68,974	1,513	72,288	288,826
Claims on MDBs	30,285	4,672	9,203	16,540	60,700
Claims on banks	508,160	12,932	2,263	105,268	628,623
Claims on corporates	1,958,127	466,235	203,773	387,404	3,015,539
Regulatory retail exposure	1,714	3,749	17,360	2,337,819	2,360,642
Past due exposure	46,647	3,740	283	107	50,777
Investments in real estate	-	-	-	21,706	21,706
Investments and financing to customers	36,269	9,457	9,009	11,202	65,937
Sukuk exposures	248	-	-	17,097	17,345
Other exposures	-	-	9,802	294,004	303,806
	3,338,620	656,658	256,241	3,462,003	7,713,522

6. GROUP RISK MANAGEMENT (CONTINUED)

6.2 Risk management processes (continued)

6.2.9 "Past-due" and impairment provisions

Credit 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 credit facility is considered 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
Watchlist	Irregular for a period up to 90 days (inclusive)
Substandard	Irregular for a period between 91 and 180 days (inclusive)
Doubtful	Irregular for a period between 181 days and 365 days (inclusive)
Bad	Irregular for a period exceeding 365 days

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.

The Group's impaired finance portfolio as at 31 December 2022 was **KD 49,959 thousand** against which a specific provision of **KD 13,394 thousand** has been made, (31 December 2021: KD 42,915 thousand and KD 9,797 thousand), as detailed below:

	2022			2021		
	Impaired finance facilities	**Related specific provision**	**Net balance**	Impaired finance facilities	Related specific provision	Net balance
Table 11	**KD '000s**	**KD '000s**	**KD '000s**	KD '000s	KD '000s	KD '000s
Claims on corporates	**48,816**	**4,929**	**43,887**	47,682	5,843	41,839
Regulatory retail exposure	**14,537**	**8,465**	**6,072**	5,030	3,954	1,076
	63,353	**13,394**	**49,959**	52,712	9,797	42,915

The geographical distribution of "past-due and impaired "financing and the related specific provision are as follows:

	2022			**2021**		
	Middle East	**Europe**	**Total**	Middle East	Europe	Total
Table 12	**KD '000s**	**KD '000s**	**KD '000s**	KD '000s	KD '000s	KD '000s
Past due and impaired financing	**52,280**	**11,073**	**63,353**	43,171	9,541	52,712
Related specific provision	**10,215**	**3,179**	**13,394**	5,544	4,253	9,797

In accordance with CBK regulations, a minimum general provision of 1% for cash facilities and 0.5% for non-cash facilities is made on all applicable credit facilities (net of certain restricted categories of collateral) which are not subject to specific provisioning.

The adequacy of provisions are regularly evaluated and monitored by the Provisions Committee.

The Group's total provision as at 31 December 2022 was **KD 199,760 thousand** inclusive of a general provision of **KD 184,902 thousand**, (31 December 2021: KD 168,709 thousand and KD 158,472 thousand), as detailed below:

	2022	2021
Table 13	**KD '000s**	KD '000s
Claim on corporates	**160,625**	134,877
Regulatory retail exposure	**24,277**	23,595
	184,902	158,472

The Group's general provision above includes **KD 2,430 thousand** relating to "non-cash" facilities in accordance with CBK regulations, (31 December 2021: KD 2,410 thousand).

6. GROUP RISK MANAGEMENT (CONTINUED)

6.2 Risk management processes (continued)

6.2.9 "Past-due" and impairment provisions (continued)

The geographical distribution of the general provision on "cash" facilities is as follows:

	2022	2021
Table 14	**KD '000s**	KD '000s
Middle East and North Africa	**171,301**	140,947
Europe & UK	**11,171**	15,115
	182,472	156,062

The analysis of specific and general provisions is further detailed in note 8 and note13 of the Group's consolidated financial statements.

6.3 "Market" risk

"Market" risk is defined as the potential loss in value of financial instruments caused by adverse movements in market variables such as profit rates, foreign exchange rates and equity prices.

Market risk results from uncertainty in future earnings arising from changes in profit rates, exchange rates, market prices and volatilities. Speculative Market Risk is not undertaken by the Bank but market risk arises from financing and investment activities.

The strategy for controlling market risk includes:

- Stringent controls and limits.
- Strict segregation of "front", "middle" and "back" office duties.
- Regular independent reporting of positions.
- Regular independent review of all controls and limits.

6.3.1 Market-Risk management framework

The Market-Risk Management framework governs the Group's activities related to market risk. Market risk arising from banking book activities is the primary responsibility of the Group's Asset and Liability Management Committee (ALCO) and managed within a structure of approved financing and position limits.

To support the ALCO, an Asset-Liability Management (ALM) unit exists within RMG. The unit is responsible for managing the balance sheet risk and its associated market, currency, and profit rate risks. Profit rate risk arises from the maturity mismatch between asset and liability. Through the unit's ALM infrastructure, it runs various scenarios and sensitivity analyses of balance sheet composition and interest rate movements to arrive at optimal structures. The Group, as part of its asset-liability management, also uses derivatives and hedging instruments as part of managing its exposure to profit rate risks.

6.4 Liquidity risk

Liquidity risk is defined as the inability to generate sufficient financial resources to meet all obligations and commitments as they fall due, or having to access funds to meet payment obligations at an excessive cost. It is the policy of the Bank to maintain adequate liquidity at all times. The Bank 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.

6.5 Reputation and fiduciary risk

Reputation risk is defined as the current and prospective impact on earnings and capital arising from negative public opinion which will affect the ability to establish new relationships or services or to continue servicing existing relationships.

Management of reputation risk is an inherent feature of the Group's corporate culture which is embedded as an integral part of the 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 its customers, shareholders, regulators, and general public and fiduciary and non-fiduciary clients.

6. GROUP RISK MANAGEMENT (CONTINUED)

6.5 Reputation and fiduciary risk (continued)

Through its policies and practices Boubyan ensures 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.

During the year, assets under management at the Group decreased by **6.3%** to reach **KD 618,294 thousand** on 31 December 2022 (31 December 2021: increased by 27.6% to reach KD 660,123 thousand).

6.6 Non-Financial Risk

In order to ensure a consistent framework for managing non-financial risks, Risk Management Group (RMG) has created a dedicated division. The Non-Financial Risk (NFR) division is comprised of Operational Risk, Fraud Risk, Technology Risk, and Business Continuity. This provides a greater opportunity to align risk management practices with the business direction and external mandates such as the CBK's Cyber Security Framework (CSF). NFR also works very closely with the Information Security Department (ISD) to ensure better visibility and management of risks across the group.

6.6.1 Operational Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems failure, or from external events. When controls fail to perform, it can lead to legal or regulatory implications, or financial or reputational loss.

The Bank 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. The framework also ensures that data confidentiality and data privacy across Group entities is maintained in accordance with local regulatory guidelines and global standards such as compliance to PA-DSS (Payment Application Data Security Standards), PCI-DSS (Payment Card Industry Security Standards), and European Union's GDPR (General Data Protection Regulation).

Through the 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, it embeds a culture of transparency of information, escalation of key issues, and accountability for issue resolution. The Group's Risk Management collates and reviews actual loss data arising from the Group's day-to-day operations to continuously refine its control arrangements. The operational-risk framework is supplemented by regular reviews from the Bank internal audit function.

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" and "combating terrorism-financing" initiatives are regularly reviewed to ensure full compliance with legal and regulatory requirements and international best practices.

6.6.2 Fraud Risk

"Fraud" is defined as any act involving deceit to obtain a direct or indirect financial benefit by the perpetrator or group of people in collusion causing a loss to the deceived party. This includes a financial gain in addition to other benefits, such as the right to have access to or obtain information by deceit or any other dishonest conduct. Whether the loss is material or related to an intangible benefit such as intellectual property rights, fraud usually involves a loss to the group, its shareholders or customers and an attempt to hide this loss.

Boubyan Bank has implemented an Enterprise Fraud Risk Management System (EFMS) using a layered approach for proactive real-time & near real-time monitoring of customer transaction activity across products, payment channels, accounts, users and processes. This helps in identifying unusual behaviour that could be a sign of criminal activity, fraud or corruption. The EFMS leverages Artificial Intelligence & Machine learning to achieve a 360^0 view of the customer behaviour and profiles to enhance transaction level and account level fraud detection, investigation and prevention.

Boubyan Group is committed to maintaining high legal, ethical, and moral standards to adhere to the principles of integrity, objectivity and honesty. The Banks takes a very serious approach to all suspected cases, confirmed cases of fraud and/or corruption by its staff and has implemented procedures to handle external fraud and claims affecting Group customers. Boubyan has zero tolerance at all levels for any dishonest & fraudulent behaviour and is committed to preventing such behaviour; treating and responding fully and fairly in accordance with the provisions of the Code of Conduct, Customer Fair Practices and Central Bank of Kuwait guidelines.

6. GROUP RISK MANAGEMENT (CONTINUED)

6.6 Non-Financial Risk (continued)

6.6.3 Technology Risk

Technology risk is defined as the business risk associated with the use, ownership, operation, involvement, influence and adoption of Technology within the bank. Technology risk consists of Technology related events that could potentially impact the business and create challenges in meeting strategic goals and objectives. Technology risks are inherited in all Bank's products, services, processes and systems.

The Bank has a Technology Risk Management Department (TRMD) that acts as the 2nd line of defense over the use of Information Technology (IT). TRMD assists with risk assessments and analysis related to technology adoption and changes. The department works closely with other stakeholders to ensure that new or updated policies and procedures sufficiently address technology risks. TRMD also participates in critical projects and conducts an independent review of major IT related incidents to ensure root causes are addressed. Risk control self-assessments covering the technology processes and related systems and services for the bank and its subsidiaries are conducted.

TRMD supports the Bank in the automation and digitization of business processes in a secure manner. These initiatives include Robotic Process Automation (RPA) and Robotic Desktop Automation (RDA), Near Field Communication (NFC), card-less payments, contactless and wearable payments, mobile banking, and online banking.

6.6.4 Business Continuity and Sustainability

The Bank has a Business Continuity Plan together with a fully-equipped Disaster Recovery Centre which is tested periodically. Group demonstrated strong business resilience during the Pandemic since employees were able to work remotely using available secure options. Crisis Management Plan, including underlying technical capabilities for disaster recovery, was enhanced in light of the Pandemic. Business Continuity Management Committee, comprised of senior management, provides oversight for this function and ensures funds are available to support the activities.

Boubyan also continues to enhance its focus on Sustainability. As such, Boubyan has set out a clear vision that articulates and enforces Environmental, Social, and Governance (ESG) criteria, starting with issuing Boubyan's first sustainability report in March 2021 which was followed by a second report in 2022. This report serves as a cornerstone in transparently disclosing our ESG performance to our stakeholders. We have achieved various milestones over the past two years, such as launching an Islamic Digital Bank, "Nomo", the very first of its kind that accommodates a diverse range of customer segments in the Middle East who are interested in investing and having access to a secure international banking experience. The Bank also launched Emerging Businesses Incubation Program to support entrepreneurs and Small to Medium Enterprises (SMEs). This is conducted through coaching and training programs that provide them with adequate skills catered to their business ideas, and with tools that strengthen the SMEs' resilience and market readiness. We continued to exhibit diversity within our culture, specifically in terms of female representation in leadership levels and in cultivating innovative talents.

Boubyan recognizes the ESG challenges and risks arising in the market, and the necessity of having an aligned and institutionalized ESG roadmap that serves as a proactive readiness action plan with a defined strategic direction. The Bank has an ESG roadmap, covering risks and opportunities within the current business operations that will help Boubyan towards ESG goals. We believe that by transparent disclosure of our non-financial performance, the oversight of higher management, and continuing the development of standardized reporting approach, will result in a deeper engagement and sustained value with our stakeholders

6.7 Information Security and Cyber Risk

An important aspect of managing risks for the Bank is to prevent against cyber threats. The Bank continues to invest in business and technical controls to strengthen the systems and underlying infrastructure. Further, the Bank ensures awareness of cybersecurity issues and maintains plans for incidents and crises. Cyber risks and related controls are frequently discussed at relevant governance forums and the Board to ensure appropriate oversight.

Information Security Department (ISD) acts as the 2nd line of defence over other Bank functions. Given the increasing digital capabilities within the Bank and the extension of Nomo Bank under BLME, Boubyan Group strives to achieve high standards or Information Security risk management. To that end, the Bank maintains ISO27001 certification for an independent validation of the strength of the Information Security Management System and handling of payment card data is certified for compliance with the Payment Card Industry Data Security Standard (PCI-DSS). Bank ensures compliance with the Central Bank of Kuwait (CBK) Cyber Security Framework (CSF) and an assessment of the same is conducted on a regular basis.

The Bank considers the number of attack vectors at the Bank as confidential information that is not shared publicly. The maximum value of the insurance policy over breaches or other cybersecurity incidents, and the frequency of audits performed on the Bank's Information Security Policies and Systems may be shared once a Non-Disclosure Agreement (NDA) is signed.

6. GROUP RISK MANAGEMENT (CONTINUED)

6.8 Risk Management Information System (MIS) & Risk Analytics

The Bank puts a lot of emphasis on implementing and independently validating state-of-the-art models and MIS while developing world leading Risk Management information system. The guiding principles are to accurately and continuously measure the risk exposures, make the exposures' data and its magnitude available at all times with no lag (i.e. near real time) for risk monitoring against board risk appetite, and corrective actions and risk adjusted decision- making. This framework covers financial risk and non-financial risks areas. The scope of the application involves the full data and exposures across the group. The Bank is working to embed this framework across a number of the group entities.

7. COMPLIANCE WITH SHARI'A PRINCIPLES

Fatwa & Shari'a Supervisory Board of the Bank is responsible for monitoring the Group's compliance with its issued fatwa and resolutions. The Shari'a Supervisory Board reviews and approves the contract and agreement forms after obtaining the necessary information to provide its opinion. Random samples of operations related to the Group's transactions are reviewed through Shari'a supervision according to the annual Shari'a audit plan for all the departments and through the periodic reports provided by the Shari'a supervisory department about the audit processes, field visits, workflow and the validity of implementing the fatwa and resolutions issue by the Shari'a Supervisory Board. Accordingly, an annual report about the Group's compliance with Shari'a fatwa and resolutions are issued according to those fatwa and resolutions and it is attached along with Group's annual report and submitted to shareholders in the General Assembly. The external auditors have looked at the procedures adopted by the Shari'a Supervisory Board review all the Shari's committee minute of the meeting held during the year and regarding to this and based on CBK circular number (2/RBA/100/2003) issue the report describing the procedures that taken in place during the year to ensure that Bank compliance with Shari's rules and principles in addition, they disclosed in the report that Bank had comply with all Shari'a Supervisory Board rules and instructions.

The violations related to compliance of Sharia's principles for the year ended 31 December 2022 is **KD Nil**, (31 December 2021: KD 44 thousand).

The Shari's Supervisor Board's remuneration for the year ended 31 December 2022 is **KD 102 thousand**, (31 December 2021: KD 102 thousand).

8. INVESTMENT ACCOUNTS

Investment accounts receive a proportion of profit based on an agreed profit-sharing ratio and bear a share of loss.

Investment accounts take the form of unrestricted Mudaraba or Wakala contracts and include savings accounts and fixed term deposit accounts.

Saving Investment Accounts

These are open-term deposits and the client is entitled to withdraw the balances of these accounts or portions thereof at any time. The profit sharing of saving investment accounts is calculated and distributed monthly and the rate of profits on the accounts balances were ranging between 0.3% and 0.8% based on the product and currency.

Fixed-Term Deposit Investment Accounts

These are fixed-term deposits based on the deposit contract executed between the Bank and the depositor. These deposits have a predetermined maturity date and renewed automatically for a similar period, unless the depositor notifies the Bank in writing of his/her desire not to renew the deposit. The profit sharing of fixed-term deposit investment accounts is calculated monthly and distributed on the month ended after the maturity date and the rate of profits on the accounts balances were ranging between 1.5% and 3% based on the product and currency.

Investment accounts are invested in pools of assets and receive a proportion share of net income from these assets after allocating its proportional share of expenses. These assets are complying with the Codes of the Islamic Sharia'a, as approved by the Group's Sharia'a Supervisory Board. The Bank does not maintain investment risk reserve or profit equalization reserve.

A weighting factor of 50% is applied on the credit risk-weighted exposures financed from investment accounts.

9. COMPOSITION OF CAPITAL

9.1 Composition of Regulatory Capital

For regulatory purposes, the capital base is divided into:

- Common Equity Tier 1
- Tier 1 Capital
- Total Capital

Common Equity Tier 1 Capital comprises share capital, share premium, retained earnings, eligible reserves and related eligible non-controlling interests. The book values of Goodwill and Intangibles are deducted along with other regulatory adjustments.

Tier 1 Capital consists of Common Equity Tier 1 Capital and Additional Tier 1 Capital which includes eligible portions of non-controlling interests.

Total Regulatory Capital includes Tier 1 Capital and Tier 2 Capital which consists of the allowed portions of general provisions and certain additional eligible non-controlling interests.

The below table summarizes the composition of capital and ratios:

	2022	2021
Table 15	**KD '000s**	KD '000s
Common Equity Tier 1 Capital before regulatory adjustments	**816,342**	598,195
Less:		
Total regulatory adjustments to Common Equity Tier 1	**38,555**	30,667
Deductions from Capital Base arising from Investments in FIs where ownership is > 10%	**-**	-
Common Equity Tier 1 Capital (CET1)	**777,787**	567,528
Additional Tier 1 Capital (AT1)	**152,708**	149,544
Tier 1 Capital (T1 = CET1 + AT1)	**930,495**	717,072
Tier 2 Capital (T2)	**64,445**	58,354
Total Capital (TC = T1 + T2)	**994,940**	775,426
Total risk-weighted assets	**5,137,120**	4,727,562
Capital ratios and buffers		
Common Equity Tier 1 Capital (as percentage of risk-weighted assets)	**15.14%**	12.00%
Tier 1 Capital (as percentage of risk-weighted assets)	**18.11%**	15.17%
Total Regulatory Capital (as percentage of risk-weighted assets)	**19.37%**	16.40%
National minima		
Common Equity Tier 1 minimum ratio (excluding Capital Conservation, Counter Cyclical and DSIB buffers)	**7.00%**	7.00%
Tier 1 minimum ratio	**8.50%**	8.50%
Total capital minimum ratio	**10.50%**	10.50%
Bank minima		
Common Equity Tier 1 minimum ratio (including Capital Conservation and DSIB buffers)	**10.50%**	10.50%
Tier 1 minimum ratio	**12.00%**	12.00%
Total capital minimum ratio	**14.00%**	14.00%

A detailed breakdown of the Group's regulatory capital position under the Common Disclosures Template as stipulated under the Pillar 3 section of the CBK Basel III Capital Adequacy framework is presented in Appendices Table 14.1.

10 RECONCILIATION REQUIREMENTS

The basis for the scope of consolidation for accounting and regulatory purposes is consistent for the Group. In order to provide a full reconciliation of all regulatory capital elements to the balance sheet in the audited financial statements, a three-step approach has been mandated under the Pillar 3 disclosures section of the CBK Basel III framework.

Table 16 provides the comparison (Step1) of the balance sheet published in the consolidated financial statement and the balance sheet under the regulatory scope of consolidation. Lines have been expanded and referenced with letters (Step 2) to display the relevant items of the regulatory capital.

31 December 2022

Table 16 - Step 1 and 2 of Reconciliation requirements	**Balance sheet as in published financial statements KD '000s**	**Under regulatory scope of consolidation KD '000s**	**Reference**
Assets			
Cash and balances with banks	**533,183**	**533,183**	
Deposits with Central Bank of Kuwait	**247,802**	**247,802**	
Deposits with other banks	**131,685**	**131,685**	
Islamic financing to customers	**5,913,518**	**5,913,518**	
of which general provisions(netted above) capped for Tier 2 inclusion	***61,348***	***61,348***	A
Investment in Sukuk	**609,565**	**609,565**	
of which investments in the capital of banking entities above the threshold deduction that are outside the scope of regulatory consolidation	**-**	**-**	B
Other investment securities	**155,156**	**155,156**	
Investment properties	**33,618**	**33,618**	
Other assets	**127,596**	**127,596**	
of which Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	***7,072***	***7,072***	C
Property and equipment	**128,634**	**128,634**	
of which Other intangibles (net of related tax liability)	***31,429***	***31,429***	D
Total assets	7,880,757	7,880,757	
Liabilities			
Due to banks	**198,678**	**198,678**	
Depositors' accounts	**5,961,728**	**5,961,728**	
Medium term financing	**637,629**	**637,629**	
Other liabilities	**103,023**	**103,023**	
Total liabilities	**6,901,058**	**6,901,058**	
Equity			
Share capital	**373,868**	**373,868**	E
Share premium	**316,942**	**316,942**	F
Proposed bonus shares	**22,432**	**22,432**	G
Treasury shares	**(54)**	**(54)**	H
Statutory reserve	**46,761**	**46,761**	I
Voluntary reserve	**15,327**	**15,327**	J
Other reserves	**(3,788)**	**(3,788)**	K
Retained earnings	**4,717**	**4,717**	
of which Retained Earnings eligible as CET1 Capital	***28,833***	***28,833***	L
of which Modification loss on deferral of financing instalments	***(24,116)***	***(24,116)***	
Proposed Cash Dividends	**22,429**	**22,429**	
Equity attributable to equity holders of the Bank	**798,634**	**798,634**	
Perpetual Tier 1 Sukuk	**150,385**	**150,385**	M
Non-controlling interests	**30,680**	**30,680**	
of which limited recognition eligible as CET1 Capital	***15,967***	***15,967***	N
of which limited recognition eligible as AT1 Capital	***2,323***	***2,323***	O
of which limited recognition eligible as Tier 2 Capital	***3,097***	***3,097***	P
Total equity	**979,699**	**979,699**	
Total liabilities and equity	**7,880,757**	**7,880,757**	

10. RECONCILIATION REQUIREMENTS (CONTINUED)

31 December 2021

Table 16 - Step 1 and 2 of Reconciliation requirements	Balance sheet as in published financial statements KD '000s	Under regulatory scope of consolidation KD '000s	Reference
Assets			
Cash and balances with banks	350,500	350,500	
Deposits with Central Bank of Kuwait	225,858	225,858	
Deposits with other banks	387,915	387,915	
Islamic financing to customers	5,513,074	5,513,074	
of which general provisions(netted above) capped for Tier 2 inclusion	*56,433*	*56,433*	A
Investment in Sukuk	529,253	529,253	
of which investments in the capital of banking entities above the threshold deduction that are outside the scope of regulatory consolidation	*4,910*	*4,910*	B
Other investment securities	125,875	125,875	
Investment properties	21,706	21,706	
Other assets	89,515	89,515	
of which Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	*7,106*	*7,106*	C
Property and equipment	108,203	108,203	
of which Other intangibles (net of related tax liability)	*23,507*	*23,507*	D
Total assets	7,351,899	7,351,899	
Liabilities			
Due to banks	395,150	395,150	
Depositors' accounts	5,618,787	5,618,787	
Medium term financing	485,371	485,371	
Other liabilities	102,519	102,519	
Total liabilities	6,601,827	6,601,827	
Equity			
Share capital	317,970	317,970	E
Share premium	156,942	156,942	F
Proposed bonus shares	15,898	15,898	G
Treasury shares	(54)	(54)	H
Statutory reserve	40,651	40,651	I
Voluntary reserve	15,327	15,327	J
Other reserves	(3,193)	(3,193)	K
Retained earnings	4,100	4,100	
of which Retained Earnings eligible as CET1 Capital	*40,274*	*40,274*	L
of which Modification loss on deferral of financing instalments	*(36,174)*	*(36,174)*	
Proposed Cash Dividends	15,896	15,896	
Equity attributable to equity holders of the Bank	563,537	563,537	
Perpetual Tier 1 Sukuk	150,385	150,385	M
Non-controlling interests	36,150	36,150	
of which limited recognition eligible as CET1 Capital	*14,325*	*14,325*	N
of which limited recognition eligible as AT1 Capital	*2,567*	*2,567*	O
of which limited recognition eligible as Tier 2 Capital	*3,423*	*3,423*	P
Total equity	750,072	750,072	
Total liabilities and equity	7,351,899	7,351,899	

10. RECONCILIATION REQUIREMENTS (CONTINUED)

Table 17 provides the relevant lines under 'Table 24: Composition of Regulatory Capital' with cross references to the letters in Table 16, thereby reconciling (Step 3) the components of regulatory capital to the published balance sheet.

Table 17 **31 December 2022**

Relevant row number in common disclosure template	Item	Component of regulatory capital KD '000s	Source based on reference letters of the balance sheet from step 2
	Common Equity Tier 1 capital: instruments and reserves		
1	Directly issued qualifying common share capital plus related stock surplus	**373,868**	**E**
2	Retained earnings	**28,833**	**L**
3	Accumulated other comprehensive income (and other reserves)	**397,674**	**F+G+I+J+K**
5	Common share capital issued by subsidiaries and held by third parties	**15,967**	**N**
6	Common Equity Tier 1 Capital before regulatory adjustments	**816,342**	
	Common Equity Tier 1 capital : regulatory adjustments		
8	Goodwill (net of related tax liability)		
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	**(31,429)**	**D**
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	**(7,072)**	**C**
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	**(54)**	**H**
18	Deductions from Capital Base arising from Investments in FIs where ownership is > 10%	**-**	
28	**Total regulatory adjustments to Common Equity Tier 1**	**(38,555)**	
29	**Common Equity Tier 1 capital (CET1)**	**777,787**	
	Additional Tier 1 capital : instruments		
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	**150,385**	**M**
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	**2,323**	**O**
36	**Additional Tier 1 capital before regulatory adjustments**	**152,708**	
	Additional Tier 1 capital : regulatory adjustments		
39	Investments in the capital of banking, financial and Islamic insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	**-**	**B**
43	**Total regulatory adjustments to Additional Tier 1 capital**	**-**	
44	**Additional Tier 1 capital (AT1)**	**152,708**	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**930,495**	
	Tier 2 capital : instruments and provisions		
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	**3,097**	**P**
50	General Provisions included in Tier 2 Capital	**61,348**	**A**
51	**Tier 2 Capital before regulatory adjustments**	**64,445**	
	Tier 2 Capital : regulatory adjustments		
54	Investments in the capital of banking, financial and Islamic insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	**-**	**B**
57	**Total regulatory adjustments to Tier 2 capital**	**-**	
58	**Tier 2 Capital (T2)**	**64,445**	
59	**Total capital (TC = T1 + T2)**	**994,940**	

10. RECONCILIATION REQUIREMENTS (CONTINUED)

Table 17

31 December 2021

Relevant row number in common disclosure template	Item	Component of regulatory capital KD '000s	Source based on reference letters of the balance sheet from step 2
	Common Equity Tier 1 capital: instruments and reserves		
1	Directly issued qualifying common share capital plus related stock surplus	317,970	E
2	Retained earnings	40,274	L
3	Accumulated other comprehensive income (and other reserves)	225,626	F+G+I+J+K
5	Common share capital issued by subsidiaries and held by third parties	14,325	N
6	Common Equity Tier 1 Capital before regulatory adjustments	598,195	
	Common Equity Tier 1 capital : regulatory adjustments		
8	Goodwill (net of related tax liability)		
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	(23,507)	D
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	(7,106)	C
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	(54)	H
18	Deductions from Capital Base arising from Investments in FIs where ownership is > 10%	-	
28	**Total regulatory adjustments to Common Equity Tier 1**	(30,667)	
29	**Common Equity Tier 1 capital (CET1)**	567,528	
	Additional Tier 1 capital : instruments		
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	150,385	M
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	2,567	O
36	**Additional Tier 1 capital before regulatory adjustments**	152,952	
	Additional Tier 1 capital : regulatory adjustments		
39	Investments in the capital of banking, financial and Islamic insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	3,408	B
43	**Total regulatory adjustments to Additional Tier 1 capital**	3,408	
44	**Additional Tier 1 capital (AT1)**	149,544	
45	**Tier 1 capital (T1 = CET1 + AT1)**	717,072	
	Tier 2 capital : instruments and provisions		
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	3,423	P
50	General Provisions included in Tier 2 Capital	56,433	A
51	**Tier 2 Capital before regulatory adjustments**	59,856	
	Tier 2 Capital : regulatory adjustments		
54	Investments in the capital of banking, financial and Islamic insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	1,502	B
57	**Total regulatory adjustments to Tier 2 capital**	1,502	
58	**Tier 2 Capital (T2)**	58,354	
59	**Total capital (TC = T1 + T2)**	775,426	

11. LEVERAGE RATIO

In October 2014, CBK issued the regulations on the 'Leverage ratio' introduced by BCBS as part of the regulatory reforms package. This transparent and non-risk based metric supplements the Capital ratio to act as a backstop measure to limit excessive build-up of on and off-balance sheet exposures.

The Leverage ratio is a separate, additional requirement from the risk-based capital requirement. It is defined as the 'capital' measure divided by the 'exposure' measure. The capital measure is made up of Tier 1 Capital. The exposure measure is a sum of on-balance sheet assets, derivative exposures; securities finance transactions and off-balance sheet exposures.

The Group is in compliance with the requirements stipulated by CBK for the Leverage ratio set at a minimum of 3%.

The Leverage Ratio for the Group at consolidated level is:

	2022	2021
Table 18		
Tier 1 Capital (KD '000s)	**930,495**	717,072
Total Exposures (KD '000s)	**8,231,962**	7,652,065
Leverage Ratio (%)	**11.30%**	9.37%

The below Table provides the details of the Total Exposures for Leverage Ratio:

	2022	2021
Table 19	**KD '000s**	KD '000s
On-balance sheet exposures	**7,842,202**	7,317,824
Exposures to Sharia compliant hedging contracts	**30,450**	11,489
Off-balance sheet items	**359,310**	322,752
Total Exposures	**8,231,962**	7,652,065

Appendices Table 14.2 provides details of the Leverage Ratio in the format stipulated for public disclosure under the Pillar 3 framework.

11.1 Leverage Ratio Reconciliation

Table 20 provides the reconciliation of the balance sheet assets from the published financial statement with total exposure amount in the calculation of leverage ratio.
Summary comparison of accounting assets vs leverage ratio exposure measure

	2022	2021
Table 20	**KD '000s**	KD '000s
Item		
Total consolidated assets as per published financial statements	**7,880,757**	7,351,899
Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	**-**	-
Adjustment for fiduciary assets recognized on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	**-**	-
Adjustments for Exposures to Sharia compliant hedging contracts	**30,450**	11,489
Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	**359,310**	322,752
Other adjustments	**(38,555)**	(34,075)
Leverage ratio exposure	**8,231,962**	7,652,065

12. LIQUIDITY COVERAGE RATIO DISCLOSURE

12.1 Introduction

In December 2014, the Central Bank of Kuwait (CBK) issued a directive (2/RB/346/2014) to Islamic banks operating in Kuwait on the adoption of the Liquidity Coverage Ratio (LCR) as part of the Central Banks's implementation of the Basel III reforms.

The main objective of the Liquidity Coverage Ratio (LCR) is to ensure the short-term resilience of the liquidity risk management of banks by ensuring that they have sufficient high quality liquid assets (HQLA) to survive a significant stress scenario lasting for a period of 30 days.

12.2 Definition

The LCR is defined as a ratio of Islamic Sharia'a compliant HQLA to the total net cash outflows estimated for the next 30 'calendar' days. HQLA are classified into two categories: "Level 1" and "Level 2" with a cap on "Level 2" assets to the total HQLA. "Level 2 HQLA" are calculated after applying the hair cut provided by the Central Bank of Kuwait on their market values. The net cash outflows are calculated by applying cash outflow and inflow run off factors assigned by the Central Bank of Kuwait. These factors apply to the various categories of liabilities (outflows relating to retail and wholesale deposits, contingent funding obligations and undrawn commitments) and assets (inflows from retail and corporate financing receivables) maturing within 30 days.

The LCR is calculated by dividing the amount of unencumbered HQLA by the estimated net outflows over a stressed 30-day period.

12.3 Regulatory Scope of Reporting and Consolidation

The LCR is reported on a consolidated basis, banking group including the branches and subsidiaries inside and outside Kuwait.

The LCR is calculated on a total currency level. For follow up purposes only the LCR is prepared on a stand-alone basis for significant currencies. Significant currencies are defined as those whose aggregate liabilities (on- and off- balance sheet) constitute more than 5% of the Group's total aggregate liabilities. Accordingly, the Bank reports the LCR for Kuwaiti Dinar (KWD) and US Dollar (USD) denominated balances in addition to the total currency level.

12.4 Liquidity Policy and Contingency Funding Plan

The Group's liquidity management is guided by its Liquidity Policy which is reviewed annually and approved by the Board of Directors. The Liquidity Policy document specifies the main goals, policies and procedures for managing liquidity risk. The Liquidity Policy outlines procedures to identify, measure and monitor liquidity risk parameters in line with regulatory and internal limits, under normal and stress scenarios.

The Liquidity Policy also encompasses the Group's Contingency Funding Plan (CFP), which is approved by the Board of Directors, charts the course to be followed under stressed conditions.

12.5 Funding Strategy and Liquidity Management

While the operational aspect of day-to-day cash flow and liquidity management rests with Treasury, other groups such as Consumer Banking Group (CBG), Corporate Banking Group (COR), Risk Management Division (RMD), and Financial Control Group (FCG) plays a key role in managing and monitoring the longer-term funding profile of the bank under the oversight of the Asset Liability Management Committee (ALCO).

The Group's long-term strategy has been to maintain a strong and diversified liabilities profile. The bank has embraced a robust funding profile through its wide domestic retail customer base and the diversified wholesale funding customers. The Group's major wholesale funding counterparties comprise mostly of Kuwaiti government and quasi-sovereign agencies with which the Bank has established a strong and long-term relationship.

12.6 Results Analysis and Main Drivers

The Group's HQLA during the three months ended 31 December 2022, averaged **KD 937 million** (post-haircut) against an average net cash-outflow of **KD 531 million**. The daily-average LCR for the observed period was **176.41%.**

The HQLA is primarily comprised of Level 1 assets which represent cash and reserve balances with the CBK as well as debt issuances by sovereign and Islamic development banks in domestic and foreign currencies. Level 2 assets comprises of debt issuances by International Islamic Liquidity Management Corporation and other non-financial institutions in domestic and foreign currencies. Level 1 assets comprise of **77%** of the total HQLA.

12. LIQUIDITY COVERAGE RATIO DISCLOSURE (CONTINUED)

12.7 Quantitative Information

Quantitative information on the Liquidity Coverage Ratio is provided in the table below. The values are calculated as the simple average of daily observations over the period between 1 October 2022 and 31 December 2022 for the Bank at Local level.

Table 21

value in KD '000s

SL.	Description	Value before applying flow rates (average)**	Value after applying flow rates[1] (average)**
High-Quality Liquid Assets (HQLA)			
1	Total HQLA (before adjustments)		**936,701**
Cash Outflows			
2	Retail deposits and small business	**1,795,193**	**283,167**
3	· Stable deposits	7,054	353
4	· Less stable deposits	1,788,139	282,814
5	Deposit, investment accounts and unsecured wholesale funding excluding the deposits of small business customers:	**1,288,891**	**833,546**
6	· Operational deposits	-	-
7	· Non-operational deposits (other unsecured commitments)	1,288,891	833,546
8	Secured Funding		-
9	Other cash outflows, including:	**97,418**	**9,742**
10	· Resulting from Shari'ah compliant hedging contracts	-	-
11	· Resulting from assets-backed sukuk and other structured funding instruments	-	-
12	· Binding credit and liquidity facilities	97,418	9,742
13	Other contingent funding obligations	**1,381,141**	**69,057**
14	Other contractual cash outflows obligations	**132,582**	**132,582**
15	**Total Cash Outflows**		**1,328,093**
Cash Inflows			
16	Secured lending transactions	-	-
17	Inflows from the performing exposures (as per the counterparties)	**1,229,005**	**762,602**
18	Other cash Inflows	**34,508**	**34,508**
19	**Total Cash Inflows**	**1,263,512**	**797,110**
LCR			**Total Adjusted Value [2]**
20	Total HQLA (after adjustments)		**936,701**
21	Net Cash Outflows		**530,984**
22	LCR		**176.41%**

* Quarterly statement.
**Simple Average for all business days of the template reporting period.
1 Is the value after the application of respective haircuts for HQLA, inflow and outflow rates.
2 Adjusted values must be calculated after the application of both (i) haircuts and inflow and outflow rates and (ii) any applicable caps (i.e. cap on Level 2B and Level 2 assets for HQLA and cap on inflows).

13. REMUNERATION DISCLOSURE

13.1 Qualitative Information

13.1.1 Governance bodies

The Boubyan Bank Group's remuneration framework is under the supervision of the Board of Directors. As per the Group's policies and charters, the Board is responsible to review and approve the remuneration policy and oversee the implementation of the remuneration framework.

The Board Nomination and Remuneration Committee (BNRC) comprises three non-executive Board members. Its main responsibility, in terms of remuneration mandates, is to support the board in setting the principles of the Group's remuneration policy and ensures effective implementation in accordance with the Group's remuneration policy and Corporate Governance Code.

Boubyan Bank remuneration policy is developed and implemented at the Group level and covers Group's subsidiaries.

The remuneration policy defines three major categories for remuneration treatment, governance and disclosures.

Senior Management: includes all employees in the positions of Assistant General Manager and above and staff whose hiring are subject to approval of regulators. The number of employees in this category as at 31 December 2022 was **58 employees**, (31 December 2021: 47 employees).

Material Risk Takers: includes all employees whose activities and decisions have a material impact on the risk profile of the Bank. The number of employees in this category as at 31 December 2022 was **26 employees**, (31 December 2021: 23 employees).

Financial and Risk Control: includes all head of divisions and head of groups in Financial Control, Risk Management, Compliance, Internal Audit and Anti-Money Laundering functions. The number of employees in this category as at 31 December 2022 was **17 employees**, (31 December 2021: 18 employees).

13.1.2 Remuneration Structure and design

Boubyan Group's remuneration policy is in line with the strategic objectives of the Group. The policy is designed mainly to attract, retain and motivate high-calibre, skilled and knowledgeable employees, thereby ensuring a sound risk management and sustained profitability.

The Group's financial remuneration framework has been linked with long-term and short-term performance objectives. The Board-approved Group's Strategy is transformed into Key Performance Indicators (KPIs) and remuneration is determined based on the achievement of those KPIs towards the overall Group strategy [including financial and non-financial criteria and Key Risk Indicators (KRIs), as appropriate].

The employees of the Bank are entitled to two categories of remuneration, which are as follows:

Fixed remuneration: such remuneration are defined in the employment agreements, and may include fixed salaries (i.e. basic salary , allowances and annual fixed pay as a percentage of basic salary) and other benefits (i.e. medical insurance, air-tickets, and schooling support),

Variable remuneration: such remuneration are driven mainly by performance and guided by the "Employee Incentive Plan". This is in the form of cash bonus and/or Employee Stock Options (ESOP).

The remuneration policy is reviewed by the Board Nomination and Remuneration Committee annually and any amendments should be approved by the Board of Directors.

The risk management, compliance and internal audit functions are independent functions. The risk management and compliance functions are reporting to and assessed by the Board Risk Committee. The internal audit function is reporting to and assessed by the Board Audit Committee. The total remuneration for these positions are determined and approved by the Board Risk Committee and Board Audit committee as a fully independent parties.

Boubyan Bank considers its Group risk profile when determining its annual remuneration pool; the risk profile includes the key risks to which the Group is exposed such as strategic, credit, market, liquidity, and operational.

The overall variable remuneration pool is determined by taking into account of relevant risk metrics. The metrics used to determine the pool are linked with key risk indicators and they are in line with the Group's overall risk strategy. The Group applied the key risk indicators (KRIs) this year without significant change from last year's KRIs.

13. REMUNERATION DISCLOSURE (CONTINUED)

13.1 Qualitative Information (continued)

13.1.3 An Overview on the Key Performance Indicators

The overall strategy of the Bank is set and approved by the Board and translated into KPIs. These are then documented and communicated to ensure the alignment of management activities to the strategy applied by Senior Management. These KPIs are monitored and reported to the Board on a regular basis.

Remuneration is determined based on the achievement of KPIs toward the overall Group strategy; this includes financial and non-financial criteria and Key Risk Indicators (KRIs) at Group's level.

The Group's Performance Management Policy sets the methodology of linking an individual's annual performance with the Group's overall performance.

The annual remuneration pool for this year was approved by the Board of Directors after review, discussion and recommendation by the Board Nomination and Remuneration Committee. The percentage of approved remuneration was determined based on the Bank-level KPIs.

The performance appraisal form for each position identifies the quantitative weights of individual KPIs; the final scoring of the appraisal is linked with a quantitative formula to determine the level of remunerations.

Since the overall remuneration pool of the Group is linked to Group performance, the Group adjusts the remuneration percentages in case of weak performance and business recessions.

13.1.4 Remuneration Adjustments

The annual remuneration amount (fixed and variable) is reviewed by the Board Nomination and Remuneration Committee and is then subject to review and approval by the Board of Directors'.

The Group remuneration deferment policy ensures an appropriate portion of the variable remuneration of senior employees (including those deemed to have a material impact on the risk profile of the organisation) is deferred.

The deferment of variable remuneration applies to the equity shares as per the ESOP terms. This deferred variable remuneration is subject to clawback in the event of established fraud, misleading information or exceeding the approved risk limits.

13.1.5 Types of Remuneration Components

The Bank has two main remuneration components (fixed and variable). The variable component is mainly linked with performance and is subject to the deferment approach as mentioned above.

The fixed component (salaries, benefits) is on cash basis, while the variable component is on cash or equity basis (ESOP).

The percentage between fixed and variable (cash and equity) is reviewed and approved by the Board on an annual basis.

In case weak performance and business recessions, the Group would try to minimise the percentage of variable remuneration, especially for the Senior Management and Material Risk-Takers.

13. REMUNERATION DISCLOSURE (CONTINUED)

13.2 Quantitative Information

During the year, the Board Nomination and Remuneration Committee met **4 times**, (31 December 2021: 4 times).

The total remuneration paid to the Committee Chairperson was **KD 10 thousand**, (31 December 2021: KD 10 thousand).

The quantitative disclosures detailed below cover only senior management and other material risk takers:

The number of employees having received a variable remuneration award during 2022 was **68 employees** and they represent **6.31%** of the total number of employees (31 December 2021: 54 employees representing 5.92% of the total number of employees).

The number of employees who received sign-on awards or guaranteed bonuses during 2022 was **1 employee** (31 December 2021: Nil).

The total amount of end-of-service benefit paid during 2022 was **KD 229 thousand**; this is related to **5 employees** (31 December 2021: KD 261 thousand related to 7 employees).

The total amount of outstanding deferred remuneration as at 31 December 2022 was KD **3,598 thousand** (31 December 2021: KD 2,928 thousand).

Total amount of deferred remuneration paid during 2022 was **KD 924 thousand** (31 December 2021: KD 810 thousand).

Total salaries & remuneration granted during reported period

Senior Management

	2022		2021	
	Unrestricted	**Deferred**	Unrestricted	Deferred
Table 22	**KD '000s**	**KD '000s**	KD '000s	KD '000s
Fixed remuneration:				
- Cash	**5,861**	**-**	4,742	-
- Others (refer note below)	**-**	**612**	-	909
Variable remuneration:				
- Cash	**1,890**	**-**	1,598	-
- DCC (Deferred cash payment)	**-**	**1,744**	-	1,490

Material Risk Takers*

	2022		2021	
	Unrestricted	**Deferred**	Unrestricted	Deferred
Table 23	**KD '000s**	**KD '000s**	KD '000s	KD '000s
Fixed remuneration:				
- Cash	**2,728**	**-**	2,402	-
- Others (refer note below)	**-**	**406**	-	419
Variable remuneration:				
- Cash	**1,014**	**-**	930	-
- DCC (Deferred cash payment)	**-**	**962**	-	893

Note: This consists of deferred end-of-service benefits in line with Boubyan Bank policy

Employees Category

	2022		2021	
Table 24	**Number of employees**	**Remuneration Fixed and Variable KD '000s**	Number of employees	Remuneration Fixed and Variable KD '000s
Senior Management	**58**	**10,107**	47	8,739
Material Risk Takers*	**26**	**5,110**	23	4,644
Financial and Risk Control	**17**	**1,905**	18	1,958

* Material Risk Takers are identified as Senior Management

14. APPENDICES

14.1 Regulatory Capital Composition: Common Disclosure Template

Row Number	Item	2022 KD '000s	2021 KD '000s
	Common Equity Tier 1 Capital: instruments and reserves		
1	Directly issued qualifying common share capital plus related stock surplus	**373,868**	317,970
2	Retained earnings	**28,833**	40,274
3	Accumulated other comprehensive income (and other reserves)	**397,674**	225,626
5	Common share capital issued by subsidiaries and held by third parties	**15,967**	14,325
6	**Common Equity Tier 1 capital before regulatory adjustments**	**816,342**	598,195
	Common Equity Tier 1 Capital : regulatory adjustments		
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	**(31,429)**	(23,507)
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	**(7,072)**	(7,106)
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	**(54)**	(54)
28	**Total regulatory adjustments to Common Equity Tier 1**	**(38,555)**	(30,667)
29	**Common Equity Tier 1 Capital after the regulatory adjustments (CET1)**	**777,787**	567,528
	Additional Tier 1 Capital : instruments		
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	150,385	150,385
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	2,323	2,567
36	**Additional Tier 1 Capital before regulatory adjustments**	**152,708**	152,952
	Additional Tier 1 Capital : regulatory adjustments		
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	**-**	(3,408)
43	**Total regulatory adjustments to Additional Tier 1 capital**	**-**	(3,408)
44	**Additional Tier 1 capital (AT1)**	**152,708**	149,544
45	**Tier 1 Capital (T1 = CET1 + AT1)**	**930,495**	717,072
	Tier 2 Capital : instruments and provisions		
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	3,097	3,423
50	General Provisions included in Tier 2 Capital	61,348	56,433
51	**Tier 2 capital before regulatory adjustments**	**64,445**	59,856
	Tier 2 Capital: regulatory adjustments		
54	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	**-**	(1,502)
57	**Total regulatory adjustments to Tier 2 Capital**	**-**	(1,502)
58	**Tier 2 Capital (T2)**	**64,445**	58,354
59	**Total Capital (TC = T1 + T2)**	**994,940**	775,426
60	**Total risk-weighted assets**	**5,137,120**	4,727,562
	Capital ratios and buffers		
61	Common Equity Tier 1 (as percentage of risk-weighted assets)	**15.14%**	12.00%
62	Tier 1 (as percentage of risk-weighted assets)	**18.11%**	15.17%
63	Total capital (as percentage of risk-weighted assets)	**19.37%**	16.40%
	National minima		
69	Common Equity Tier 1 minimum ratio (excluding Capital Conservation, Counter Cyclical and DSIB buffers)	**7.00%**	7.00%
70	Tier 1 minimum ratio	**8.50%**	8.50%
71	Total capital minimum ratio	**10.50%**	10.50%

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Boubyan Bank

14. APPENDICES (CONTINUED)

14.2 Leverage Ratio: Common Disclosure Template

	Item	2022 KD '000s	2021 KD '000s
	On-balance sheet exposures		
1	On-balance sheet items (excluding Sharia compliant hedging contracts, but including collaterals)	**7,880,757**	7,351,899
2	(Asset amounts deducted in determining Basel III Tier 1 Capital)	**(38,555)**	(34,075)
3	**Total on-balance sheet exposures (excluding Sharia compliant hedging contracts) (sum of lines 1 and 2)**	**7,842,202**	7,317,824
	Exposures to Sharia compliant hedging contracts		
4	Replacement cost associated with all Sharia compliant hedging contracts (i.e. net of eligible cash variation margin)	**24,116**	2,150
5	Add-on amounts for potential future exposures " PFE" associated with all Sharia compliant hedging contracts	**6,334**	9,339
6	Gross-up for the collateral of Sharia compliant hedging contracts provided where deducted from the balance sheet assets pursuant to the Group's accounting policy.	**-**	-
7	(Deductions of receivables assets for cash variation margin provided in with all Sharia compliant hedging contracts)	**-**	-
8	(Group's exposures to exempted Central counter parties "CCP")	**-**	-
9	**Total exposures of Sharia compliant hedging contracts (sum of lines 4 to 8)**	**30,450**	11,489
	Other off-balance sheet exposures		
10	Off-balance sheet exposure (before any adjustment for credit conversion factors)	**1,576,575**	1,303,969
11	(Adjustments for conversion to credit equivalent amounts)	**(1,217,265)**	(981,217)
12	**Off-balance sheet items (sum of lines 10 and 11)**	**359,310**	322,752
	Capital and total exposures		
13	**Tier 1 Capital**	**930,495**	717,072
14	**Total exposures (sum of lines 3, 9,12)**	**8,231,962**	7,652,065
	Leverage ratio		
15	**Leverage ratio (Tier 1 Capital (13)/total exposures (14))**	**11.30%**	9.37%

14. APPENDICES (CONTINUED)

14.3 Regulatory Capital: Main Features Template

	Disclosure template for main features of regulatory capital instruments	
1	Issuer	Boubyan Tier 1 Sukuk Limited
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	ISIN: XS2306403788
3	Governing law(s) of the instrument	English law
	Regulatory treatment	
4	Type of Capital (CET1,AT1 or T2)	Additional Tier 1
5	Eligible at solo/group/group and solo	Group and Solo
6	Instrument type	Subordinated Debt
7	Amount recognized in regulatory capital	USD 500 million (KWD 150.385 million)
8	Par value of instrument	USD 1,000/-
9	Accounting classification	Equity Tier 1
10	Original date of issuance	01 April 2021
11	Perpetual or dated	Perpetual
12	Original maturity date	No maturity
13	Issuer call subject to prior supervisory approval	Yes
14	Optional call date, contingent call dates and redemption amount	Optional Call date: 01 October 2026 (6 months par call)
15	Subsequent call dates, if applicable	On the First Call Date 1 October or on any Periodic Distribution Date thereafter (01 April and 01 October every year)
	Coupons/ dividends	
16	Fixed or floating dividend/coupon	Fixed
17	Coupon rate and any related index	3.95%
18	Existence of a dividend stopper	Yes
19	Fully discretionary, partially discretionary or mandatory	Partially discretionary
20	Existence of step up or other incentive to redeem	No
21	Noncumulative or cumulative	Non-Cumulative
22	Convertible or non-convertible	Non-Convertible
23	If convertible, conversion trigger (s)	Not applicable
24	If convertible, fully or partially	Not applicable
25	If convertible, conversion rate	Not applicable
26	If convertible, mandatory or optional conversion	Not applicable
27	If convertible, specify instrument type convertible into	Not applicable
28	If convertible, specify issuer of instrument it converts into	Not applicable
29	Write-down feature	Yes
30	If write-down, write-down trigger (s)	A contractual approach A Non-Viability Event means that the Financial Regulator has informed the Bank that it has determined that a Trigger Event has occurred. A Trigger Event would have occurred if any of the following events occur: a) the Bank is instructed by the Financial Regulator to write-off or convert such instruments into common equity, on the grounds of non-viability; or b) An immediate injection of capital is required, by way of an emergency intervention, without which the Bank would become non-viable.
31	If write-down, full or partial	Can be partial
32	If write-down, permanent or temporary	Permanent
33	If temporary write-down, description of write-up mechanism	Not applicable
34	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Deeply subordinated, senior only to ordinary shares and Common Equity Tier 1 Capital
35	Non-compliant transitioned features	No
36	If yes, specify non-compliant features	Not applicable

Report of the Sharia Supervisory Board and External Sharia Auditor's Report

Date: 10 Jumada al-Akhirah 1444 A.H.
Corresponding to: 03 January 2023

In the Name of Allah, the Most Gracious,
the Most Merciful

Report of the Sharia Supervisory Board
For the Financial Year Ended, December 31st 2022

To the Shareholders of Boubyan Bank

Peace and blessings be with you!
By virtue of the resolution of the General Assembly to appoint the Sharia Supervisory Board of Boubyan Bank (the "Board"), and to assign us with such duties, we hereby provide you with the following report:

First: Activities of the Sharia Supervisory Board:
We, at the Sharia Supervisory Board of Boubyan Bank, have monitored and reviewed the adopted principles and the contracts pertinent to the transactions of the Bank for the period from 01-01-2022 to 31-12-2022. We have observed the due review and revision necessary to express our opinion on the Bank's compliance with the rulings and principles of the Noble Islamic Sharia as well as its compliance with the specific Fatwa, resolutions, principles and guidelines previously issued by the Board. The management of the Bank is entrusted with the implementation of such rulings, principles and Fatwa while our responsibility is limited to expressing an independent opinion in light of the transactions submitted and presented to us.

We have exercised proper observation and review that covered review of contracts and procedures followed at the Bank by testing each type of transactions, and we have obtained all the information and explanations necessary to express an opinion on the extent to which the Bank's activities are in compliance with the rulings of the Noble Islamic Sharia.

Second: Meetings and Resolutions of the Sharia Supervisory Board:
During the period from 01-01-2022 to 31-12-2022, the Sharia Supervisory Board held (12) meetings in the presence of all of its members.

These meetings issued (59) Sharia-related resolutions, covering contracts and various Sharia-related inquiries.

Third: The Final Opinion:

1- The Bank's contracts, documents, and operations during the period from 01-01-2022 to 31-12-2022, presented to us, have been concluded as per the rulings and principles of the Noble Islamic Sharia.

2- The Board has further verified that any revenues, which were unintentionally generated for the bank without compliance with the rulings of the Noble Islamic Sharia, have been excluded.

3- The Board verified the calculation of the payable Zakat amount for the bank's share in line with the rulings and principles of the Noble Islamic Sharia.

We invoke Almighty Allah to rightly guide the Bank's management to better serve our noble religion, our dear country, and to put everyone on the right path. Verily, Allah is the Arbiter of All Success.

And Praise Be to Allah, the Lord of the Worlds.

Sheikh Dr. Abdulaziz Khalifa Al-Qassar
Chairman of the Sharia Supervisory Board

Sheikh Dr. Esam Khalaf Al-Enezi
Vice-Chairman of the Sharia Supervisory Board

Sheikh Dr. Mohammed Oud Al-Fuzaie
Member of the Sharia Supervisory Board

Sheikh Dr. Ali Ibrahim Al-Rashed
Member of the Sharia Supervisory Board

External Sharia Auditor's Report

Date : 10/01/2023
To Shareholders of Boubyan Bank Respected,,

Peace, Mercy & Blessings of Allah be upon you, and after kind greetings,,,

Boubyan External Shariah Audit Report for the financial year ending as of 31/12/2022 AD

Responsibility of External Shariah Audit Office
Under the contract concluded between us, the external Shariah audit office is responsible for controlling and auditing all transactions and dealings to ensure the extent to which KIB adheres to the provisions of Islamic Shariah in accordance with the Resolutions and Fatwas issued by the Shariah Supervisory Board.

Boubyan's Responsibility
The bank is responsible for compliance with the provisions of Islamic Shariah in accordance with the Resolutions and Fatwas issued by the Shariah Supervisory Board, and for providing al information that is necessary to conduct an external Shariah audit on all transactions and dealings.

Procedures and Results ofExternal Shariah Audit
The minutes of meetings and reports of Shariah Supervisory Board in addition to
the plan and reports of t h e Internal Shariah Audit Department are reviewed, and the Shariah approvals on the policy and procedure manuals and their amendments are reviewed for all of the bank's departments.

We also have examined and reviewed investments, contracts, banking and commercial transactions, and its products and phases of its completion, and we have ensured that the concerned authorities in the bank have implemented these operations in accordance with the Resolutions and Fatwas of Shariah Supervisory Board.

Field Visits and Findings
The executive departments of Boubyan Bank are communicated by holding field meetings, via telephone and video conversations, and by e-mail, as the external Sharia audit team held three field meetings in the departments of financial control.

commercial services and central operations, in addition to daily phone and video calls from October 2022 to December 2022 with the managers and their assistants in the bank's different departments.

Final Independent Opinion of External Shariah Auditor
We think that the audit conducted on the Bank's transactions for the period as of 01/01/2022 to 31/12/2022 provides a proper basis for expressing our independent opinion in accordance to information, clarifications and confirmations we have obtained and which we consider necessary to provide us with sufficient evidence to give reasonable assurance that the Bank's executive departments have complied with the Resolutions and Fatwas of the Shariah Supervisory Board, accordingly; the External Shariah Audit Office has reached the final opinion that Boubyan Ban has complied with the provisions and principles of Islamic Shariah in accordance
with the Resolutions and Fatwas of the Shariah Supervisory Board.

External Sharia Auditor
Dr. Abdulaziz Khalaf Jarallah

بنك بوبيان
Boubyan Bank

Boubyan Bank K.S.C.P. and Subsidiaries

Consolidated Financial Statements and Independent Auditors' Report

for the year ended 31 December 2022

EY
Building a better working world

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

Report on the Audit of the Consolidated Financial Statements

Opinion
We have audited the consolidated financial statements of Boubyan Bank K.S.C.P (the "Bank") and its subsidiaries (together, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2022, and the related consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs"), as adopted by the Central Bank of Kuwait ("CBK") for use by the State of Kuwait.

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

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

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

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

Key Audit Matters (continued)

We have identified the following key audit matter:

Credit losses on Islamic financing to customers

The recognition of credit losses on cash and non-cash Islamic financing ("credit facilities") to customers is the higher of Expected Credit Loss ("ECL") under International Financial Reporting Standard 9: Financial Instruments ("IFRS 9"), determined in accordance with CBK guidelines, and the provision required by the CBK rules on classification of credit facilities and calculation of their provision (the "CBK rules") as disclosed in the accounting policies in Note 3.5 and Note 13 to the consolidated financial statements.

Recognition of ECL under IFRS 9, determined in accordance with CBK guidelines, is a complex accounting policy, which requires considerable judgement in its implementation. ECL is dependent on management's judgement in assessing significant increase in credit risk and classification of credit facilities into various stages; determining when a default has occurred, development of models for assessing the probability of default of customers and estimating cash flows from recovery procedures or realization of collateral.

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

Due to the significance of credit facilities and the related estimation uncertainty and judgement in the impairment calculation, this was considered as a key audit matter. This is further heightened by the high degree of estimation uncertainty due to the inflationary pressure and high profit rate environment.

Our audit procedures included assessing the design and implementation of controls over the inputs and assumptions used by the Group in developing the models, its governance and review controls performed by the management in determining the adequacy of credit losses. Further, our audit procedures were updated to incorporate consideration of the current inflationary pressure and high profit rate environment, including a focus on rescheduled credit facilities.

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

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

Key Audit Matters (continued)

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

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

Other information included in the Annual Report of the Group for the year ended 31 December 2022
Management is responsible for the other information. Other information consists of the information included in Annual Report of the Group for the year ended 31 December 2022, other than the consolidated financial statements and our auditors' report thereon. We obtained the report of the Bank's Board of Directors, prior to the date of our auditors' report, and we expect to obtain the remaining sections of the Group's Annual Report for the year ended 31 December 2022 after the date of our auditors' report.

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

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

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of account have been kept by the Bank and the consolidated financial statements, together with the contents of the report of the Bank's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the Central Bank of Kuwait ("CBK") as stipulated in CBK Circular Nos. 2/RB, RBA/336/2014 dated 24 June 2014, and its amendments, and 2/I.B.S. 343/2014 dated 21 October 2014, and its amendments, respectively, the Companies Law No 1 of 2016, as amended, and its executive regulations, as amended, or by the Bank's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the CBK as stipulated in CBK Circular Nos. 2/RB, RBA /336/2014 dated 24 June 2014, and its amendments and 2/I.B.S. 343/2014 dated 21 October 2014, and its amendments, respectively, the Companies Law No 1 of 2016, as amended, and its executive regulations, as amended, or of the Bank's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2022 that might have had a material effect on the business of the Bank or on its financial position.

We further report that, during the course of our audit, we have not become aware of any violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the CBK and the organisation of banking business, and its related regulations during the year ended 31 December 2022 that might have had a material effect on the business of the Bank or on its financial position.

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

29 January 2023
Kuwait

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2022

	Notes	**2022** KD'000s	2021 KD'000s
Income			
Murabaha and other Islamic financing income	5	**283,712**	223,185
Finance cost and distribution to depositors		**(116,489)**	(65,678)
Net financing income		**167,223**	157,507
Net investment income	6	**6,763**	8,800
Net fees and commission income	7	**21,133**	16,795
Net foreign exchange gain		**6,244**	4,679
Net operating income		**201,363**	187,781
Staff costs		**(60,256)**	(52,449)
General and administrative expenses		**(28,166)**	(25,223)
Depreciation		**(12,373)**	(9,566)
Operating expenses		**(100,795)**	(87,238)
Operating profit before provision for impairment		**100,568**	100,543
Provision for impairment	8	**(43,607)**	(50,751)
Operating profit before taxation and board of directors' remuneration		**56,961**	49,792
Taxation	9	**(2,108)**	(1,257)
Board of directors' remuneration		**(580)**	(580)
Net profit for the year		**54,273**	47,955
Attributable to:			
Equity holders of the Bank		**57,786**	48,494
Non-controlling interests		**(3,513)**	(539)
Net profit for the year		**54,273**	47,955
Basic and diluted earnings per share attributable to the equity holders of the Bank (fils)	10	**14.18**	12.35

The notes from 1 to 34 form an integral part of these consolidated financial statements.

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

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2022

	2022 KD'000s	2021 KD'000s
Net profit for the year	**54,273**	47,955
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	**2,415**	4,789
Foreign currency translation adjustments	**(2,708)**	(1,839)
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	**(3,693)**	(157)
Re-measurement gain/(loss) on post-employment benefits (note 19).	**2,367**	(484)
Other comprehensive (loss)/income for the year	**(1,619)**	2,309
Total comprehensive income for the year	**52,654**	50,264
Attributable to:		
Equity holders of the Bank	**57,191**	51,636
Non-controlling interests	**(4,537)**	(1,372)
Total comprehensive income for the year	**52,654**	50,264

The notes from 1 to 34 form an integral part of these consolidated financial statements.

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

	Notes	**2022** KD'000s	2021 KD'000s
Assets			
Cash and balances with banks	11	**533,183**	350,500
Deposits with Central Bank of Kuwait		**247,802**	225,858
Deposits with other banks	12	**131,685**	387,915
Islamic financing to customers	13	**5,913,518**	5,513,074
Investment in Sukuk	14	**609,565**	529,253
Other investment securities	14	**155,156**	125,875
Investment properties	16	**33,618**	21,706
Other assets	17	**127,596**	89,515
Property and equipment		**128,634**	108,203
Total assets		**7,880,757**	7,351,899
Liabilities and Equity			
Liabilities			
Due to banks		**198,678**	395,150
Depositors' accounts		**5,961,728**	5,618,787
Medium term financing	18	**637,629**	485,371
Other liabilities	19	**103,023**	102,519
Total liabilities		**6,901,058**	6,601,827
Equity			
Share capital	20	**373,868**	317,970
Share premium	21	**316,942**	156,942
Proposed bonus shares	22	**22,432**	15,898
Treasury shares	23	**(54)**	(54)
Statutory reserve	24	**46,761**	40,651
Voluntary reserve	25	**15,327**	15,327
Other reserves	25	**(3,788)**	(3,193)
Retained earnings		**4,717**	4,100
Proposed cash dividends	22	**22,429**	15,896
Equity attributable to equity holders of the Bank		**798,634**	563,537
Perpetual Tier 1 Sukuk	26	**150,385**	150,385
Non-controlling interests		**30,680**	36,150
Total equity		**979,699**	750,072
Total liabilities and equity		**7,880,757**	7,351,899

Abdulaziz Abdullah Dakheel Al-Shaya
Chairman

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

The notes from 1 to 34 form an integral part of these consolidated financial statements.

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022

	Share capital	Share premium	Proposed bonus shares	Treasury shares	Statutory reserve	Voluntary reserve	Other reserves (note 25)	Retained earnings	Proposed cash dividends	Equity attributable to equity holders of the Bank	Perpetual Tier 1 Sukuk	Non-controlling interests	Total equity
	KD'000s	KD'000s	KD'000s	KD'000s	KD'000s	KD'000s	KD'000s	KD'000s	KD'000s	KD'000s	KD'000s	KD'000s	KD'000s
Balance at 1 January 2022	**317,970**	**156,942**	**15,898**	**(54)**	**40,651**	**15,327**	**(3,193)**	**4,100**	**15,896**	**563,537**	**150,385**	**36,150**	**750,072**
Profit/(loss) for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**57,786**	**-**	**57,786**	**-**	**(3,513)**	**54,273**
Other comprehensive loss for the year	**-**	**-**	**-**	**-**	**-**	**-**	**(595)**	**-**	**-**	**(595)**	**-**	**(1,024)**	**(1,619)**
Total comprehensive (loss) / income for the year	**-**	**-**	**-**	**-**	**-**	**-**	**(595)**	**57,786**	**-**	**57,191**	**-**	**(4,537)**	**52,654**
Dividends paid (note 22)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(15,896)**	**(15,896)**	**-**	**-**	**(15,896)**
Right shares issues (note 20)	**40,000**	**160,000**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**200,000**	**-**	**-**	**200,000**
Issue of bonus shares (note 22)	**15,898**	**-**	**(15,898)**	**-**	**-**	**-**	**-**		**-**	**-**	**-**	**-**	**-**
Profit paid on Perpetual Tier 1 Sukuk	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(6,068)**	**-**	**(6,068)**	**-**	**-**	**(6,068)**
Proposed bonus shares (note 22)	**-**	**-**	**22,432**	**-**	**-**	**-**	**-**	**(22,432)**	**-**	**-**	**-**	**-**	**-**
Proposed cash dividends (note 22)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(22,429)**	**22,429**	**-**	**-**	**-**	**-**
Transfer to reserves	**-**	**-**	**-**	**-**	**6,110**	**-**	**-**	**(6,110)**	**-**	**-**	**-**	**-**	**-**
Cost directly related to increase in share capital	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(130)**	**-**	**(130)**	**-**	**-**	**(130)**
Other movement in non-controlling interests	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(933)**	**(933)**
Balance at 31 December 2022	**373,868**	**316,942**	**22,432**	**(54)**	**46,761**	**15,327**	**(3,788)**	**4,717**	**22,429**	**798,634**	**150,385**	**30,680**	**979,699**
Balance at 1 January 2021	302,827	156,942	15,143	(54)	35,512	15,327	(21,958)	14,121	-	517,860	75,388	33,482	626,730
Profit /(loss) for the year	-	-	-	-	-	-	-	48,494	-	48,494	-	(539)	47,955
Other comprehensive income/(loss) for the year	-	-	-	-	-	-	3,142	-	-	3,142	-	(833)	2,309
Total comprehensive income/(loss) for the year	-	-	-	-	-	-	3,142	48,494	-	51,636	-	(1,372)	50,264
Net transfer to retained earnings for equity investment at FVOCI	-	-	-	-	-	-	15,623	(15,623)	-	-	-	-	-
Issue of bonus shares (note 22)	15,143	-	(15,143)	-	-	-	-	-	-	-	-	-	-
Redemption of Tier 1 Sukuk	-	-	-	-	-	-	-	-	-	-	(75,388)	-	(75,388)
Issue of Tier 1 Sukuk (note 26)	-	-	-	-	-	-	-	(610)	-	(610)	150,385	-	149,775
Profit paid on Perpetual Tier 1 Sukuk	-	-	-	-	-	-	-	(5,349)	-	(5,349)	-	-	(5,349)
Other movement in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	4,040	4,040
Proposed bonus shares (note 22)	-	-	15,898	-	-	-	-	(15,898)	-	-	-	-	-
Proposed cash dividends (note 22)	-	-	-	-	-	-	-	(15,896)	15,896	-	-	-	-
Transfer to reserves	-	-	-	-	5,139	-	-	(5,139)	-	-	-	-	-
Balance at 31 December 2021	317,970	156,942	15,898	(54)	40,651	15,327	(3,193)	4,100	15,896	563,537	150,385	36,150	750,072

The notes from 1 to 34 form an integral part of these consolidated financial statements.

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

	Notes	2022 KD'000s	2021 KD'000s
OPERATING ACTIVITIES			
Net profit for the year		**54,273**	47,955
Adjustments for:			
Provision for impairment	8	**43,607**	50,751
Depreciation		**12,373**	9,566
Foreign currency translation adjustments		**(6,269)**	(1,402)
Dividend income	6	**(3,758)**	(3,053)
Net loss/(gain) from financial assets at fair value through profit or loss	6	**1,774**	(2,202)
Net loss/(gain) from sale of debt investments at FVOCI	6	**649**	(483)
Unrealized gain from change in fair value of investment properties	6	**(2,184)**	(577)
Realized gain on sale of investment properties	6	**(1,168)**	(475)
Share of results of associates	6	**(712)**	(401)
Operating profit before changes in operating assets and liabilities		**98,585**	99,679
Changes in operating assets and liabilities:			
Deposits with Central Bank of Kuwait		**8,147**	11,028
Deposits with other banks		**6,904**	7,288
Islamic financing to customers		**(433,243)**	(781,483)
Other assets		**(14,730)**	(3,097)
Due to banks		**(200,209)**	113,779
Depositors' accounts		**350,659**	511,059
Other liabilities		**10,825**	3,245
Net cash used in operating activities		**(173,062)**	(38,502)
INVESTING ACTIVITIES			
Purchase of investment securities		**(378,445)**	(239,113)
Proceeds from sale/redemption of investment securities		**236,786**	203,675
Proceeds from sale of investment in associates		**602**	201
Proceeds from sale of investment properties		**12,625**	26,636
Purchase of investment properties		**(22,914)**	(680)
Purchase of property and equipment		**(32,803)**	(26,410)
Dividend income received		**3,761**	3,053
Net cash used in investing activities		**(180,388)**	(32,638)
FINANCING ACTIVITIES			
Proceeds from increase in share capital and share premium		**200,000**	-
Cost directly related to increase in share capital		**(130)**	-
Profit distribution on perpetual Tier 1 Sukuk		**(6,068)**	(5,349)
Transaction costs on issue of Perpetual Tier 1 Sukuk		**-**	(610)
Redemption of Tier 1 Sukuk		**-**	(75,388)
Net proceeds from issue of Perpetual Tier 1 Sukuk		**-**	150,385
Dividends paid		**(15,896)**	-
Net movement of non-controlling interest		**(933)**	4,040
Issuance of medium term financing		**152,225**	181,495
Net movement in medium term financing		**(16,885)**	(7,215)
Net cash generated from financing activities		**312,313**	247,358
Net (decrease)/increase in cash and cash equivalents		**(41,137)**	176,218
Net foreign exchange difference		**4,555**	2,590
Cash and cash equivalents at the beginning of the year		**766,008**	587,200
Cash and cash equivalents at the end of the year	11	**729,426**	766,008

The notes from 1 to 34 form an integral part of these consolidated financial statements.

1. INCORPORATION AND ACTIVITIES

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

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

The Bank is principally engaged in providing banking services, in accordance with Codes of the Islamic Sharia'a, as approved by the Bank's Sharia'a Supervisory Board. The Bank's Articles of Incorporation were amended by adding a new activity, namely, offering securities or selling the same for their issuer, its affiliate or obtaining securities from the issuer or its affiliate for remarketing (issuance management). In addition to the activity of purchase and sale of land plots and all types of real estate properties for their financing purposes as per the provisions of Law no. 32 of 1968 Concerning Currency, the Central Bank of Kuwait, and Organization of the Banking Business.

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

The total number of employees in the Group was **2,266** employees as at 31 December 2022 (2,051 employees as at 31 December 2021).

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

The consolidated financial statements were authorised for issue by the Board of Directors on 9 January 2023 and the shareholders have the power to amend these consolidated financial statements at the annual assembly meeting.

2. BASIS OF PREPARATION

2.1 Statement of compliance

The consolidated financial statement of the Group has been prepared in accordance with the regulations for financial services institutions as issued by the Central Bank of Kuwait ("CBK") in the State of Kuwait. These regulations require banks and other financial institutions regulated by CBK to adopt the International Financial Reporting Standards as issued by International Accounting Standards Board (IASB) with the following amendments:

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

(b) Recognition of modification losses on financial assets arising from payment holidays to customers as a result of Covid-19 during the financial year ended 31 December 2020, as required by CBK circular ref.2/BS/IBS/461/2020. Modification losses referred to in the circular, should be recognised in retained earnings instead of consolidated statement of profit or loss as would be required by IFRS 9. However, modification loss on financial assets arising from any other payment holidays to customers shall be recognized in the consolidated statement of profit or loss in accordance with IFRS 9. All modification losses incurred after the year ended 31 December 2020 are recognised in the consolidated statement of profit or loss. The application of the policy will result in application of different accounting presentation for modification losses in 2020 compared to 2021.

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

2.2 Basis of measurement

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

2.3 Functional and presentation currency

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

2.4 Changes in accounting policies and disclosures

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the previous year except for the adoption of certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2022. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

2. BASIS OF PREPARATION (CONTINUED)

2.4 Changes in accounting policies and disclosures (continued)

Reference to the Conceptual Framework – Amendments to IFRS 3

The amendments replace a reference to a previous version of the IASB's Conceptual Framework with a reference to the current version issued in March 2018 without significantly changing its requirements. The amendments add an exception to the recognition principle of IFRS 3 Business Combinations to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies, if incurred separately. The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of the Conceptual Framework, to determine whether a present obligation exists at the acquisition date.

The amendments also add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date. In accordance with the transitional provisions, the Group applies the amendments prospectively, i.e., to business combinations occurring after the beginning of the annual reporting period in which it first applies the amendments (the date of initial application).

These amendments had no impact on the consolidated financial statements of the Group as there were no contingent assets, liabilities or contingent liabilities within the scope of these amendments that arose during the year.

IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. There is no similar amendment proposed for IAS 39 *Financial Instruments: Recognition and Measurement*. These amendments had no material impact on the consolidated financial statements of the Group as there were no significant modifications of the Group's financial instruments during the year.

Amendments to IAS 16 P,P&E, proceeds before intended use

The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment,any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

In accordance with the transitional provisions, the Group applies the amendments retrospectively only to items of PP&E made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment (the date of initial application).

Amendments to IFRS 16 Covid-19 Related Rent Concessions

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

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

Other amendments to IFRSs which are effective for annual accounting period starting from 1 January 2022 did not have any material impact on the accounting policies, financial position or performance of the Group.

2. BASIS OF PREPARATION (CONTINUED)

2.5 New standards and interpretations not yet adopted

The significant new and amended standards and interpretations that are issued, but not yet effective up to the date of the Group's consolidated financial statements are disclosed below. The Group intends to adopt these new standards and amended standards and interpretations when they become effective.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17.

The standard is applicable to its insurance subsidiary, which is not material to the Group. The Group is currently in the process of assessing the impact of the standard on its consolidated financial statements and will adopt the standard on the effective date.

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

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

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

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

Definition of Accounting Estimates - Amendments to IAS 8

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period.

Earlier application is permitted as long as this fact is disclosed. The amendments are not expected to have a material impact on the Group's consolidated financial statements.

3 SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Basis of consolidation

The consolidated financial statements comprise the Bank and its principal operating subsidiaries (collectively "the Group") - Boubyan Takaful Insurance Company K.S.C (Closed) , Boubyan Capital Investment Company K.S.C (Closed) and BLME Holdings plc, as at 31 December 2022 and which are controlled by the Bank as set out in note 15.

3.1.1 Business combinations

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

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

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

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

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

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

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

3.1.2 Non-controlling interests

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

3.1.3 Subsidiaries

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Basis of consolidation (continued)

3.1.4 Loss of control

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

3.1.5 Investments in associates (equity-accounted investees)

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

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

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

When the Group's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of the investment, including any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets and liabilities of the associate at the date of acquisition is recognized as goodwill within the carrying amount of the associates.

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

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

3.1.6 Transactions eliminated on consolidation

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

3.2 Foreign currency

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Revenue recognition

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

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

3.4 Government grants

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

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

3.5 Financial instruments

3.5.1 Financial assets

a) Trade and settlement date accounting

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

b) Recognition and derecognition of financial assets

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

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

c) Classification and Measurement of Financial assets

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

Cash and cash equivalents

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

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

Deposits with banks, Central Bank of Kuwait and Islamic financing to customers are financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortised cost net provision of impairment.

Murabaha

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

Wakala

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (continued)

3.5.1 Financial assets (continued)

c) Classification and Measurement of Financial assets (continued)

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

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

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (continued)

3.5.1 Financial assets (continued)

c) Classification and Measurement of Financial assets (continued)

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

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

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

(i) Financial assets measured at amortised cost:

A financial asset is measured at amortised cost if it meets both of the following conditions:

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

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

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

(i) Debt Securities (Sukuk) at FVOCI

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

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

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

(ii) Equity investments at FVOCI

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (continued)

3.5.1 Financial assets (continued)

c) Classification and Measurement of Financial assets (continued)

(iii) Financial assets measured at fair value through profit and loss (FVTPL):

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

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

Reclassification of financial assets

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

d) Impairment of financial assets

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

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

Equity investments are not subject to Expected Credit Losses.

Impairment of financing facilities

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

Expected Credit Losses

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

Stage 1: 12-months ECL

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

Stage 2: Lifetime ECL – not credit impaired

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

Stage 3: Lifetime ECL – credit impaired

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (continued)

3.5.1 Financial assets (continued)

d) Impairment of financial assets (continued)

Expected Credit Losses (continued)

Determining the stage for impairment
At each reporting date, the Group assesses whether there has been significant increase in credit risk since initial recognition by comparing the risk of default occurring over the remaining expected life from the reporting date with the risk of default at the date of initial recognition. The quantitative criteria used to determine a significant increase in credit risk is a series of relative and absolute thresholds. All financial assets that are 30 days past due for corporates' finance and 45 days past due for Consumer finance are deemed to have significant increase in credit risk since initial recognition and migrated to stage 2 even if other criteria do not indicate a significant increase in credit risk except where the Group has reasonable and supportable information that demonstrates that the credit risk has not increased significantly even though the contractual payments are more than 30 to 45 days past due.

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (continued)

3.5.1 Financial assets (continued)

d) Impairment of financial assets (continued)

Expected Credit Losses (continued)

Modification of Islamic financing to customers
Under certain circumstances, the Group seeks to restructure Islamic financing to customers rather than taking possession of collateral. This may involve extending the payment arrangements, reduction in the amount of principal or profit and the agreement of new facility or financing conditions. If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, such a facility is derecognized, and a new financial asset is recognized at fair value plus any eligible transaction costs.

Any fees received as part of the modification are accounted for as follows:.

- Fees that are considered in determining the fair value of the new financial asset and fees that represents reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- Other fees are included in profit or loss as part of the gain or loss on derecognition.

If the cash flows of the modified asset carried at amortized cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Group recalculates the gross carrying amount of the financial asset and recognizes the amount arising from adjusting the gross carrying amount as a modification gain or loss in consolidated statement of profit or loss . If such a modification is carried out because of financial difficulties of the borrower then the gain or loss is presented together with impairment losses. In other cases, it is presented as Murabaha and other Islamic financing income

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (continued)

3.5.1 Financial assets (continued)

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

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

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

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

3.5.2 Financial liabilities

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

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

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

Due to banks and depositors' accounts

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

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

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

Saving Investment Accounts

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

Fixed-Term Deposit Investment Accounts

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

Open –Term Deposit Investment Accounts

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

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

Medium term financing

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

3.5.3 Offsetting

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6 Profit rate benchmark reform

The Phase 2 amendments provide practical relief from certain requirements in IFRS Standards. These reliefs relate to modifications of financial instruments and lease contracts or hedging relationships triggered by a replacement of a benchmark profit rate in a contract with a new alternative benchmark rate.

If the basis for determining the contractual cash flows of a financial asset or financial liability measured at amortized cost changed as a result of profit rate benchmark reform, then the Group updated the effective profit rate of the financial asset or financial liability to reflect the change that is required by the reform. A change in the basis for determining the contractual cash flows is required by profit rate benchmark reform if the following conditions are met:

- the change is necessary as a direct consequences of the reform; and
- the new basis for determining the contractual cash flows is economically equivalent to the previous basis – i.e. the basis immediately before the change.

When the changes were made to a financial asset or financial liability in addition to changes to the basis for determining the contractual cash flows required by profit rate benchmark reform, the Group first updated the effective profit rate of the financial asset or financial liability to reflect the change that is required by profit rate benchmark reform. After that, the Group applied the policies on accounting for modifications to the additional changes.

3.7 Fair values

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8 Derivative Financial instruments and hedge accounting

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

i. Derivatives designated as Non-hedged:

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

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

ii. Derivatives designated as hedges:

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment.
- Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to the particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment.
- Hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge effectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is ‘an economic relationship’ between the hedge item and the hedging instrument.
- The effect of the credit risk does not ‘dominate the value changes’ that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

Hedges that meet all the qualifying criteria for hedge accounting are accounted for, as described below:

Fair value hedges:

The gain or loss on the hedging instrument is recognised in consolidated statement of profit or loss while the hedging gain or loss on the hedged item shall adjust the carrying amount of the hedged item, if applicable, and be recognised in consolidated statement profit or loss.

Cash flow hedges:

The effective portion of the gain or loss on the hedging instrument is recognised in the consolidated statement of other comprehensive income, while any ineffective portion is recognised immediately in the consolidated statement of profit or loss. The cash flow hedge reserve is adjusted to the lower of cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

Amounts recognised as other comprehensive income are transferred to the consolidated statement of profit or loss when the hedged transaction affects consolidated statement of profit or loss.

When a hedging instrument expires, is sold, terminated, exercised, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss that has been recognised in the consolidated statement of other comprehensive income at that time remains in the consolidated statement of comprehensive income and is recognised when the hedged forecast transaction is ultimately recognised in the consolidated statement of profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in the consolidated statement of other comprehensive income is immediately transferred to the consolidated statement of profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8 Derivative Financial instruments and hedge accounting (Continued)

Hedges of a net investment in a foreign operation:
Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised as other comprehensive income while any gains or losses relating to the ineffective portion are recognised in the consolidated statement of profit or loss. On disposal of the foreign operation, the cumulative value of any such gains or losses recorded in equity are transferred to consolidated statement of profit or loss.

3.9 Investment properties

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

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

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

3.10 Property and equipment

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

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

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

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

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

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

3.11 Leases – Group as a lessee

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.11 Leases – Group as a lessee (continued)

a) Right-of-use assets

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

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

b) Lease liabilities

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

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

3.12 Impairment of non- financial assets

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

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

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

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

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

3.13 Provisions

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.14 Contingent liabilities and contingent assets

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

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

3.15 Segment reporting

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

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

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

3.16 Treasury shares

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

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

3.17 Post-employment benefits

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

3.18 Kuwait Foundation for the Advancement of Sciences (KFAS)

The Bank calculates the contribution to KFAS at 1% of the Bank's net profit for the year in accordance with the Amiri Decree issued on 12 December 1976.

3.19 National Labour Support Tax (NLST)

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

3.20 Zakat

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

3.21 Taxation

Income tax payable on taxable profit ('current tax') is recognised as an expense in the period in which the profits arise in accordance with the fiscal regulations of the respective countries in which the Group operates. Deferred tax assets are recognised for deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent it is probable that taxable profit will be available to utilise these. Deferred tax liabilities are recognised for taxable temporary differences. Deferred tax assets and liabilities are measured using tax rates and applicable legislation enacted at the reporting date.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.22 Financial guarantees

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

3.23 Fiduciary assets

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

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

4.1 Critical judgments in applying the Group's accounting policies

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

Fair value hierarchy

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

Classification of financial assets

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

4.2 Key sources of estimation uncertainty

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

Expected Credit Losses on financial assets

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

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

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

Impairment losses on Islamic finance facilities

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

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

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

4.2 Key sources of estimation uncertainty (continued)

Valuation of unquoted equity investments

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

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

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

5. MURABAHA AND OTHER ISLAMIC FINANCING INCOME

Islamic financing income includes financing income from customers of **KD 264,922 thousand** (2021: KD 208,096 thousand) and income from Sukuk of **KD 18,790 thousand** (2021: KD 15,089 thousand).

6. NET INVESTMENT INCOME

	2022 KD'000s	2021 KD'000s
Dividend income	**3,758**	3,053
Net rental income from investment properties	**1,364**	1,609
Net (loss) / gain from financial assets at fair value through profit or loss	**(1,774)**	2,202
Net (loss) / gain from sale of debt investments at FVOCI	**(649)**	483
Unrealized gain from changes in fair value of investment properties	**2,184**	577
Realized gain on sale of investment properties	**1,168**	475
Share of result of associates	**712**	401
	6,763	8,800

7. NET FEES AND COMMISSION INCOME

	2022 KD'000s	2021 KD'000s
Gross fees and commission income	**35,977**	29,250
Fees and commission expenses	**(14,844)**	(12,455)
	21,133	16,795

8. PROVISION FOR IMPAIRMENT

	2022 KD'000s	2021 KD'000s
Provision for impairment of Islamic financing to customers	**33,843**	40,214
ECL – other financial assets	**1,735**	(37)
Impairment loss on other assets	**8,029**	10,574
	43,607	50,751

8. PROVISION FOR IMPAIRMENT (CONTINUED)

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

	Specific KD'000s	General KD'000s	Total KD'000s
Balance at 1 January 2021	3,536	126,364	129,900
Provided during the year	7,599	32,615	40,214
Recovery of written off balances	6,217	-	6,217
Written off balances during the year	(7,115)	-	(7,115)
Foreign currency differences	-	(507)	(507)
Balance at 31 December 2021	10,237	158,472	168,709
Provided during the year	**6,025**	**27,818**	**33,843**
Recovery of written off balances	**9,640**	**-**	**9,640**
Written off balances during the year	**(10,548)**	**-**	**(10,548)**
Foreign currency differences	**(496)**	**(1,388)**	**(1,884)**
Balance at 31 December 2022	**14,858**	**184,902**	**199,760**

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

	Islamic finance to customers KD'000s	Non-cash facilities KD'000s	Total KD'000s
Balance at 1 January 2021	127,163	2,737	129,900
Provided during the year	40,101	113	40,214
Recovery of written off balances	6,217	-	6,217
Written off balances during the year	(7,115)	-	(7,115)
Foreign currency differences	(507)	-	(507)
Balance at 31 December 2021	165,859	2,850	168,709
Provided during the year	**32,799**	**1,044**	**33,843**
Recovery of written off balances	**9,640**	**-**	**9,640**
Written off balances during the year	**(10,548)**	**-**	**(10,548)**
Foreign currency differences	**(1,884)**	**-**	**(1,884)**
Balance at 31 December 2022	**195,866**	**3,894**	**199,760**

At 31 December 2022, non-performing finance facilities amounted to **KD 51,459 thousand**, net of provision of **KD 14,858 thousand** (2021: KD 45,060 thousand, net of provision of KD 10,237 thousand). The analysis of specific and general provision stated above is based on Central Bank of Kuwait's instructions.

9. TAXATION

	2022 **KD'000s**	2021 KD'000s
Contribution to Kuwait Foundation for the Advancement of Sciences ("KFAS")	**649**	458
National Labour Support Tax ("NLST")	**1,492**	1,332
Zakat (Based on Zakat law no: 46/2006)	**592**	529
Overseas taxes	**(625)**	(1,062)
	2,108	1,257

10. BASIC AND DILUTED EARNING PER SHARE

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

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

	2022	2021
Net profit for the year attributable to the equity holders of the Bank (KD'000s)	**57,786**	48,494
Less: profit payment on Perpetual Tier 1 Sukuk (KD'000s)	**(6,068)**	(5,349)
	51,718	43,145
Weighted average number of shares outstanding during the year (thousands of shares)	**3,647,681**	3,493,462
Basic and diluted earnings per share attributable to the equity holders of the Bank (fils)	**14.18**	12.35

Earnings per share for the year ended 2021 was 13.57 fils per share before retroactive adjustment to the number of shares following the bonus issue and right issue (see notes 20 and 22).

11. CASH AND CASH EQUIVALENTS

	2022	2021
	KD'000s	KD'000s
Cash and balances with banks	**533,183**	350,500
Placement with banks maturing within seven days	**196,243**	415,508
	729,426	766,008

12. DEPOSITS WITH OTHER BANKS

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

	2022	2021
	KD'000s	KD'000s
Kuwait & Middle East	**90,327**	238,467
Europe & UK	**41,463**	149,544
	131,790	388,011
Less: Expected credit losses (ECL)	**(105)**	(96)
	131,685	387,915

13. ISLAMIC FINANCING TO CUSTOMERS

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

	Kuwait & Middle East	**North America & Africa**	**Europe & UK**	**Total**
	KD'000s	**KD'000s**	**KD'000s**	**KD'000s**
2022				
Corporate banking	**3,080,637**	**11,561**	**514,410**	**3,606,608**
Consumer banking	**2,502,776**	**-**	**-**	**2,502,776**
	5,583,413	**11,561**	**514,410**	**6,109,384**
Less: provision for impairment	**(181,402)**	**(116)**	**(14,348)**	**(195,866)**
	5,402,011	**11,445**	**500,062**	**5,913,518**
2021				
Corporate banking	2,707,487	7,704	558,331	3,273,522
Consumer banking	2,405,411	-	-	2,405,411
	5,112,898	7,704	558,331	5,678,933
Less: provision for impairment	(148,740)	(77)	(17,042)	(165,859)
	4,964,158	7,627	541,289	5,513,074

13. ISLAMIC FINANCING TO CUSTOMERS (CONTINUED)

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

	Specific		General		Total	
	2022	2021	**2022**	2021	**2022**	2021
	KD'000s	KD'000s	**KD'000s**	KD'000s	**KD'000s**	KD'000s
Balance at beginning of the year	**9,797**	3,216	**156,062**	123,947	**165,859**	127,163
Provided during the year	**5,001**	7,479	**27,798**	32,622	**32,799**	40,101
Recovery of written off balances	**9,640**	6,217	**-**	-	**9,640**	6,217
Written off balances during the year	**(10,548)**	(7,115)	**-**	-	**(10,548)**	(7,115)
Foreign currency differences	**(496)**	-	**(1,388)**	(507)	**(1,884)**	(507)
Balance at end of the year	**13,394**	9,797	**182,472**	156,062	**195,866**	165,859

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

	Corporate banking		Consumer banking		Total	
	2022	2021	**2022**	2021	**2022**	2021
	KD'000s	KD'000s	**KD'000s**	KD'000s	**KD'000s**	KD'000s
Balance at beginning of the year	**5,843**	1,592	**3,954**	1,624	**9,797**	3,216
(Release)/ Provided during the year	**(14)**	8,707	**5,015**	(1,228)	**5,001**	7,479
Recovery of written off balances	**7,325**	1,467	**2,315**	4,750	**9,640**	6,217
Written off balances during the year	**(7,729)**	(5,923)	**(2,819)**	(1,192)	**(10,548)**	(7,115)
Foreign currency differences	**(496)**	-	**-**	-	**(496)**	-
Balance at end of the year	**4,929**	5,843	**8,465**	3,954	**13,394**	9,797

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

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

	2022	2021
	KD'000s	KD'000s
Islamic financing to customers	**63,353**	52,712
Specific provision for impairment	**(13,394)**	(9,797)
	49,959	42,915

At 31 December 2022, management estimates the fair value of collaterals held against individually impaired Islamic finance facilities to be **KD 82,661 thousand** (2021: KD 62,701 thousand).

The ECL for Islamic financing (Cash and non-cash) as at 31 December 2022 is **KD 75,311 thousand** (2021: KD 63,490 thousand) which is lower than the provision for impairment of Islamic finance to customers required under CBK regulations.

The available provision for impairment on non-cash facilities of **KD 3,894 thousand** (2021: KD 2,850 thousand) is included under other liabilities.

13. ISLAMIC FINANCING TO CUSTOMERS (CONTINUED)

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

	Stage 1 KD'000s	Stage 2 KD'000s	Stage 3 KD'000s	Total KD'000s
31 December 2022				
High	**5,571,820**	**49,644**	**-**	**5,621,464**
Standard	**231,146**	**193,421**	**-**	**424,567**
Impaired	**-**	**-**	**63,353**	**63,353**
Islamic financing to customers	**5,802,966**	**243,065**	**63,353**	**6,109,384**
High	**294,717**	**249**	**-**	**294,966**
Standard	**32,878**	**76,531**	**-**	**109,409**
Impaired	**-**	**-**	**2,964**	**2,964**
Contingent Liabilities (Note 28)	**327,595**	**76,780**	**2,964**	**407,339**
Commitments (revocable and irrevocable) to extend credit	**1,065,810**	**56,583**	**6**	**1,122,399**
31 December 2021				
High	5,154,280	34,256	-	5,188,536
Standard	213,412	224,273	-	437,685
Impaired	-	-	52,712	52,712
Islamic financing to customers	5,367,692	258,529	52,712	5,678,933
High	295,287	3,175	-	298,462
Standard	28,459	63,232	-	91,691
Impaired	-	-	3,517	3,517
Contingent Liabilities (Note 28)	323,746	66,407	3,517	393,670
Commitments(revocable and irrevocable) to extend credit	827,682	17,218	279	845,179

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

	Stage 1 KD 000's	Stage 2 KD 000's	Stage 3 KD 000's	Total KD 000's
31 December 2022				
ECL allowance as at 1 January 2022	**22,417**	**14,628**	**26,445**	**63,490**
Impact due to transfer between stages	**122**	**(3,086)**	**2,964**	**-**
Transfer from Stage 1	(1,647)	454	1,193	-
Transfer from Stage 2	1,304	(3,619)	2,315	-
Transfer from Stage 3	465	79	(544)	-
Additional ECL for the year	**1,995**	**4,598**	**6,860**	**13,453**
Amounts written off and recoveries	**-**	**-**	**(908)**	**(908)**
Foreign currency translation	**(18)**	**(113)**	**(593)**	**(724)**
At 31 December 2022	**24,516**	**16,027**	**34,768**	**75,311**
31 December 2021				
ECL allowance as at 1 January 2021	20,316	19,779	22,160	62,255
Impact due to transfer between stages	1,324	725	(2,049)	-
Transfer from Stage 1	(771)	327	444	-
Transfer from Stage 2	1,191	(3,680)	2,489	-
Transfer from Stage 3	904	4,078	(4,982)	-
Additional ECL for the year	800	(5,865)	7,353	2,288
Amounts written off and recoveries	-	-	(896)	(896)
Foreign currency translation	(23)	(11)	(123)	(157)
At 31 December 2021	22,417	14,628	26,445	63,490

14. INVESTMENT SECURITIES

	2022	2021
	KD'000s	KD'000s
Investment in Sukuk	**609,565**	529,253
Financial assets at fair value through profit or loss	**134,373**	102,848
Financial assets at fair value through other comprehensive income	**18,249**	19,853
Investment in associates	**2,534**	3,174
	764,721	655,128

	2022	2021
	KD'000s	KD'000s
Investment in Sukuk		
Investment in Sukuk- FVOCI	**591,893**	510,388
Investment in Sukuk- FVTPL	**17,672**	18,865
	609,565	529,253

	2022	2021
	KD'000s	KD'000s
Financial assets at fair value through profit or loss		
Investment in unquoted equity funds	**134,373**	102,848
	134,373	102,848

	2022	2021
	KD'000s	KD'000s
Financial assets at fair value through other comprehensive income		
Investment in unquoted equity securities	**15,310**	16,600
Investment in quoted securities	**2,939**	3,253
	18,249	19,853

15. SUBSIDIARIES

15.1 Details of principal operating subsidiaries are as follows:

Name of subsidiary	Country of incorporation	Principal activity	Effective ownership % **2022**	Effective ownership % 2021
Boubyan Takaful Insurance Company K.S.C. (Closed)	Kuwait	Takaful insurance	**98.88**	79.49
Boubyan Capital Investment Company K.S.C. (Closed)	Kuwait	Islamic investments	**100.00**	100.00
BLME Holdings Plc, ("BLME")	United Kingdom	Islamic Banking	**71.52**	71.08

15.2 Material partly-owned subsidiary

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

Proportion of equity interest held by non-controlling interests:

Name of subsidiary	Country of incorporation	Principal activity	Effective ownership % **2022**	Effective ownership % 2021
BLME Holdings Plc, ("BLME")	United Kingdom	Islamic Banking	**28.48**	28.92

15. SUBSIDIARIES (CONTINUED)

15.2 Material partly-owned subsidiary (continued)

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

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

	2022	2021
	KD 000's	KD 000's
Revenues	**17,503**	16,984
Expenses	**(20,803)**	(21,495)
Loss for the year	**(3,300)**	(4,511)
Total comprehensive loss	**(3,261)**	(4,643)
Attributable to non-controlling interest:		
Loss for the year	**(1,146)**	(1,721)
Other comprehensive income	**36**	613
	(1,110)	(1,108)

Summarised consolidated statement of financial position as at:

	2022	2021
	KD 000's	KD 000's
Total assets	**607,082**	666,778
Total liabilities	**519,443**	565,845
Total equity	**87,639**	100,933
Attributable to:		
Equity holders of the Bank	**61,142**	69,157
Non-controlling interest	**26,497**	31,776
	87,639	100,933

Summarised consolidated statement of cash flows for year ended:

	2022	2021
	KD 000's	KD 000's
Net cash generated from / (used in) operating activities	**13,982**	(59,340)
Net cash generated from investing activities	**15,133**	9,753
Net cash used in financing activities	**(2,816)**	(130)
Net increase / (decrease) in cash and cash equivalents	**26,299**	(49,717)

16. INVESTMENT PROPERTIES

The movement in the investment properties is as follows:

	2022	2021
	KD'000s	KD'000s
Balance at the beginning of the year	**21,706**	47,133
Additions during the year	**21,350**	680
Disposal during the year	**(11,456)**	(26,161)
Net unrealized gain from change in fair value of investment properties	**2,184**	577
Foreign currency translation adjustments	**(166)**	(523)
Balance at the ending of the year	**33,618**	21,706

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

	Level 1	**Level 2**	**Level 3**	**Total**
	KD'000's	**KD'000's**	**KD'000's**	**KD'000's**
2022				
Investment properties	**-**	**2,197**	**31,421**	**33,618**
2021				
Investment properties	-	11,033	10,673	21,706

17. OTHER ASSETS

	2022 KD'000s	2021 KD'000s
Due from Ministry of Finance for instalment deferrals (note 33)	**51,574**	51,574
Accrued income	**7,654**	4,267
Prepayments	**5,280**	4,056
Positive fair value of derivatives (Note 31)	**24,320**	2,150
Others	**38,768**	27,468
	127,596	89,515

18. MEDIUM TERM FINANCING

	2022 KD'000s	2021 KD'000s
Global Medium Term Sukuk ("GMTN programme")*	**376,843**	229,137
Other medium term financing**	**260,786**	256,234
	637,629	485,371

* The Bank established a USD 1 billion Global Medium Term Sukuk programme ("GMTN programme") in 2019, which has been subsequently revised to USD 3 billion in 2022.

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

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

** Other medium term financing has a tenor of three years and carry a profit rate in the range of 5.28% to 6.15%.

19. OTHER LIABILITIES

	2022 KD'000s	2021 KD'000s
Creditors and accruals	**21,479**	26,809
Accrued staff benefits	**13,033**	11,867
Post-Employment Benefit	**15,441**	15,789
Provision on non-cash facilities (note 8)	**3,894**	2,850
Others	**49,176**	45,204
	103,023	102,519

Post-Employment Benefit
The present value of defined benefit obligation and the related current and past service cost was determined by actuarial valuations using the projected unit credit method. The significant inputs used in the actuarial valuation were a discount rate of **5.25%** (2021: 3.75%), future salary increases in line with expected consumer price inflation and demographic assumptions of mortality, withdrawal, retirement and disability rates.

20. SHARE CAPITAL

	2022		2021	
	Shares	**KD'000s**	Shares	KD'000s
Shares authorised, issued and fully paid in cash and bonus shares.	**3,738,682,484**	**373,868**	3,179,697,604	317,970

During the current year, after obtaining necessary approvals, the Bank increased its share capital through the rights issue of **400,000,000** shares, each with a nominal value of 100 fils and premium of 400 fils. The rights issue has been fully subscribed resulting in an increase in share capital of **KD 40,000** thousand and share premium of **KD 160,000** thousand.

21. SHARE PREMIUM

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

22. DIVIDEND

The Annual General Assembly meeting of the shareholders held on 23 March 2022 approved **5%** bonus shares (2020: 5%) and a cash dividend of **5** fils per share (2020: Nil) for the year ended 31 December 2021. The cash dividend paid amounted to **KD 15,896 thousand** and the bonus shares increased the number of issued and fully paid up shares by **158,984,880** shares (2020: 151,414,171 shares) and increase in share capital by **KD 15,898 thousand** (2020: KD 15,141 thousand). The approved bonus shares were distributed on 12 April 2022.

The board of directors recommended distribution of cash dividends of **6** fils per share and bonus share of **6%** for the year ended 31 December 2022. The proposed dividends, if approved by the shareholders' general assembly, shall be payable to the shareholders after obtaining the necessary regulatory approvals.

23. TREASURY SHARES

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

	2022	2021
Number of treasury shares	**475,652**	420,376
Treasury shares as a percentage of total issued shares - %	**0.01272%**	0.01322%
Cost of treasury shares (KD'000s)	**54**	54
Market value of treasury shares (KD'000s)	**380**	332
Weighted average of market value per share (fils)	**0.835**	0.711

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

24. STATUTORY RESERVE

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

25. OTHER RESERVES

	Fair value reserve	**Foreign currency translation reserve**	**Change in actuarial valuation reserve**	**Total**
	KD'000s	**KD'000s**	**KD'000s**	**KD'000s**
Balance at 1 January 2022	**11,891**	**(11,508)**	**(3,576)**	**(3,193)**
Other comprehensive (loss) / income	**(1,278)**	**(1,684)**	**2,367**	**(595)**
Total comprehensive (loss) / income for the year	**(1,278)**	**(1,684)**	**2,367**	**(595)**
Balance at 31 December 2022	**10,613**	**(13,192)**	**(1,209)**	**(3,788)**

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

25. OTHER RESERVES (CONTINUED)

Voluntary reserve

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

Voluntary reserve is available to be distributed to shareholders at the discretion of the general assembly in ways that may be deemed beneficial to the Bank, except for the amount equivalent to the cost of purchase of the treasury shares (note 23).

26. PERPETUAL TIER 1 SUKUK

During the previous year on 1 April 2021, the Bank has issued "Tier 1 Sukuk – 2021", through a Sharia's compliant Sukuk arrangement amounting to USD 500 million which was fully allocated. Tier 1 Sukuk -2021 is a perpetual security in respect of which there is no fixed redemption date and constitutes direct, unsecured, subordinated obligations (senior only to share capital) of the Bank subject to the terms and conditions of the Mudaraba Agreement. The Tier 1 Sukuk – 2021 is callable by the Bank on 1 October 2026 and bears an expected profit rate of **3.95%** per annum to be paid semi-annually in arrears. The expected profit rate will be reset on 1 April 2027 based on then prevailing 6 years US Treasury Rate plus initial margin of **2.896%** per annum. The net proceeds are invested by way of Mudaraba with the Bank (as Mudareb) on an unrestricted co-mingling basis, by the Bank in its general business activities carried out through the general Mudaraba pool. Mudaraba profit will not be accumulated and the event is not considered an event of default.

27. RELATED PARTY TRANSACTIONS

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

	Number of board member or executive officers		Number of related parties			
	2022	2021	**2022**	2021	**2022**	2021
					KD'000s	KD'000s
Islamic financing to customers	**9**	7	**1**	-	**46,828**	310
Depositors' accounts	**24**	15	**20**	18	**18,311**	13,168
Letters of guarantee and letters of credit	**-**	1	**1**	2	**13**	370
Murabaha and other Islamic financing income					**1,566**	11
Finance cost and distribution to depositors					**(3)**	(3)
Parent Company						
Due from banks					**25,810**	117,243
Due to banks					**20,442**	31,797
Depositors accounts					**300**	508
Murabaha and other Islamic financing income					**2,277**	788
Finance cost and distribution to depositors					**(1,002)**	(920)

The Group holds collaterals against Islamic finance facilities to related parties in the form of shares and real estate. An estimate of the fair value of collaterals held against Islamic finance facilities to related parties amounted to **KD 75,048 thousand** as at 31 December 2022 (2021: KD 80 thousand).

Compensation of key management personnel:

Details of compensation for key management comprise the following:

	2022	2021
	KD'000s	KD'000s
Short-term benefits	**3,465**	2,823
Post-employment benefits	**429**	459
Deferred compensation	**918**	730
	4,812	4,012

28. CONTINGENCIES AND COMMITMENTS

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

	2022	2021
	KD'000s	KD'000s
Guarantees	**315,593**	292,528
Acceptances and letters of credit	**91,746**	101,142
Other commitments	**135,823**	125,818
	543,162	519,488

29. SEGMENT REPORTING

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

Business Segments

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

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

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

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

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

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

	Consumer banking	**Corporate banking**	**Investment banking and International operations**	**Treasury**	**Group centre**	**Total**
2022	**KD'000s**	**KD'000s**	**KD'000s**	**KD'000s**	**KD'000s**	**KD'000s**
Net financing income	**93,683**	**50,770**	**10,464**	**7,807**	**4,499**	**167,223**
Operating income	**103,880**	**58,090**	**25,003**	**14,042**	**348**	**201,363**
Net profit/(loss) for the year	**59,235**	**56,702**	**(21,755)**	**13,209**	**(53,118)**	**54,273**
Total assets	**2,496,880**	**3,686,912**	**763,211**	**799,614**	**134,140**	**7,880,757**
Total liabilities	**3,708,222**	**596,102**	**720,372**	**1,366,908**	**509,454**	**6,901,058**
2021						
Net financing income	91,038	46,457	9,566	6,261	4,185	157,507
Operating income	99,707	52,838	28,054	10,924	(3,742)	187,781
Net profit/(loss) for the year	59,071	47,727	(2,776)	10,221	(66,288)	47,955
Total assets	2,401,709	3,193,247	806,299	863,164	87,480	7,351,899
Total liabilities	3,388,869	375,111	776,769	1,721,360	339,718	6,601,827

Geographical segment

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

	Middle East & North Africa	**North America**	**Europe & UK**	**Asia**	**Total**
	KD'000s	**KD'000s**	**KD'000s**	**KD'000s**	**KD'000s**
2022					
Assets	**7,016,438**	**110,474**	**624,442**	**129,403**	**7,880,757**
Non-current assets (excluding financial instruments)	**266,096**	**173**	**26,113**	**-**	**292,382**
Liabilities and equity	**6,814,107**	**477,530**	**439,715**	**149,405**	**7,880,757**
Segment income/(loss)	**183,302**	**(469)**	**20,691**	**(2,161)**	**201,363**
2021					
Assets	6,485,099	48,336	695,527	122,937	7,351,899
Non-current assets(excluding financial instruments)	204,704	159	17,814	-	222,677
Liabilities and equity	6,758,566	29,309	411,091	152,933	7,351,899
Segment income	175,894	6,755	3,003	2,129	187,781

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

30.1 Introduction and overview

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

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

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

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

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

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

30.2 Credit risk

30.2.1 Assessment of expected credit losses

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

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

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

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

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

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

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

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

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

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.2 Credit risk (continued)

30.2.1 Assessment of expected credit losses *(continued)*

Significant increase in credit risk

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

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

Measurement of ECLs

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

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

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

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

Incorporation of forward-looking information

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

The weighting of the multiple scenarios increased the Bank's reported allowance for credit losses for financial assets, other than credit facilities, in Stage 1 and Stage 2, relative to the base case scenario, by **KD 230 thousands** (2021: increased by KD 546 thousands). If the Bank were to use only downside case scenario for the measurement of allowance for credit losses for financial assets, other than credit facilities, allowance for credit losses would be **KD 626 thousands** (2021: KD 1,573 thousands) higher than the reported allowance for credit losses as at 31 December 2022.

The weighting of the multiple scenarios increased Bank's reported allowance for credit losses for financing receivables in Stage 1 and Stage 2, relative to our base case scenario, by **KD 2,147 thousands** (2021: KD 4,864 thousands). If the Bank were to use only downside case scenario for the measurement of allowance for credit losses for financing receivables, allowance for credit losses on performing loans would be **KD 2,290 thousands** (2021: KD 6,794 thousands) higher than the reported allowance for credit losses as at 31 December 2022.

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

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.2 Credit risk (continued)

30.2.1 Assessment of expected credit losses (continued)

Internal rating and PD estimation process

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

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

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

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

Exposure at default

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

Loss given default

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

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

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

	2022		2021	
	Gross exposure	**Net exposure**	Gross exposure	Net exposure
	KD'000's	**KD'000's**	KD'000's	KD'000's
Islamic financing to customers	**5,913,518**	**3,872,738**	5,513,074	3,579,219
Contingent liabilities and other commitments	**543,162**	**513,156**	519,488	505,627

Collateral and other credit enhancements

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

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.2 Credit risk (continued)

30.2.3 Risk Concentration of the maximum exposure to credit risk

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

Credit risk can also arise due to a significant concentration of Group's assets to any single counterparty. This risk is managed by diversification of the portfolio. The 20 largest Islamic financing facilities outstanding as a percentage of gross facilities as at 31 December 2022 are **20.67%** (2021: 23.42%).

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

	Middle East & North Africa	North America	Europe & UK	Asia	Total
	KD'000's	KD'000's	KD'000's	KD'000's	KD'000's
2022					
Balances with banks	**401,078**	**28,418**	**54,161**	**16**	**483,673**
Deposits with Central Bank of Kuwait	**247,802**	**-**	**-**	**-**	**247,802**
Deposits with other banks	**93,560**	**3,191**	**34,934**	**-**	**131,685**
Islamic financing to customers	**5,408,035**	**-**	**505,483**	**-**	**5,913,518**
Investment in Sukuk	**480,169**	**-**	**-**	**129,396**	**609,565**
Other assets (excluding prepayments)	**115,122**	**-**	**7,194**	**-**	**122,316**
	6,745,766	**31,609**	**601,772**	**129,412**	**7,508,559**
Contingent liabilities	**404,233**	**-**	**1,060**	**2,046**	**407,339**
Commitments	**98,208**	**-**	**37,615**	**-**	**135,823**
Total credit risk exposure	**7,248,207**	**31,609**	**640,447**	**131,458**	**8,051,721**
2021					
Balances with banks	266,874	24,089	20,616	49	311,628
Deposits with Central Bank of Kuwait	225,858	-	-	-	225,858
Deposits with other banks	245,706	23,128	119,081	-	387,915
Islamic financing to customers	4,971,785	-	541,289	-	5,513,074
Investment in Sukuk	395,526	-	-	133,727	529,253
Other assets (excluding prepayments)	82,021	-	3,438	-	85,459
	6,187,770	47,217	684,424	133,776	7,053,187
Contingent liabilities	390,536	-	1,089	2,045	393,670
Commitments	96,514	-	29,304	-	125,818
Total credit risk exposure	6,674,820	47,217	714,817	135,821	7,572,675

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

	2022	2021
	KD'000's	KD'000's
Trading	**315,627**	244,956
Manufacturing	**191,209**	274,749
Banking and other financial institutions	**1,064,946**	1,061,135
Construction	**389,206**	383,748
Real Estate	**1,365,902**	1,346,404
Retail	**2,418,401**	2,318,535
Government	**940,212**	794,950
Others	**1,366,218**	1,148,198
	8,051,721	7,572,675

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.2 Credit risk (continued)

30.2.4 Credit quality per class of financial assets

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

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

	High	**Standard**	**Impaired**	**Total**
	KD'000's	**KD'000's**	**KD'000's**	**KD'000's**
2022				
Balances with banks	**483,673**	**-**	**-**	**483,673**
Deposits with Central Bank of Kuwait	**247,834**	**-**	**-**	**247,834**
Deposits with other banks	**131,789**	**-**	**-**	**131,789**
Islamic financing to customers	**5,621,464**	**424,567**	**63,353**	**6,109,384**
Investment in Sukuk	**609,565**	**-**	**-**	**609,565**
Other assets (excluding prepayment)	**122,316**	**-**	**-**	**122,316**
	7,216,641	**424,567**	**63,353**	**7,704,561**

	High	Standard	Impaired	Total
	KD'000's	KD'000's	KD'000's	KD'000's
2021				
Balances with banks	311,628	-	-	311,628
Deposits with Central Bank of Kuwait	225,877	-	-	225,877
Deposits with other banks	388,010	-	-	388,010
Islamic financing to customers	5,188,536	437,685	52,712	5,678,933
Investment in Sukuk	529,253	-	-	529,253
Other assets (excluding prepayment)	85,459	-	-	85,459
	6,728,763	437,685	52,712	7,219,160

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.2 Credit risk (continued)

30.2.4 Credit quality per class of financial assets (continued)

Ageing analysis of past due or impaired financial assets:

	Corporate banking		Consumer banking		Total	
	Past due and not impaired KD'000's	Impaired KD'000's	Past due and not impaired KD'000's	Impaired KD'000's	Past due and not Impaired KD'000's	Impaired KD'000's
2022						
Up to 30 days	**84,583**	**12,422**	**1,682**	**23**	**86,265**	**12,445**
31 – 60 days	**589**	**-**	**6,219**	**4**	**6,808**	**4**
61 – 90 days	**22**	**-**	**3,011**	**3**	**3,033**	**3**
91 – 180 days	**-**	**135**	**-**	**25**	**-**	**160**
More than 180 days	**-**	**35,822**	**-**	**14,919**	**-**	**50,741**
	85,194	**48,379**	**10,912**	**14,974**	**96,106**	**63,353**
2021						
Up to 30 days	37,624	2,235	1,120	17	38,744	2,252
31 – 60 days	68	43	6,076	12	6,144	55
61 – 90 days	69	3	4,341	-	4,410	3
91 – 180 days	-	65	-	22	-	87
More than 180 days	-	45,070	-	5,245	-	50,315
	37,761	47,416	11,537	5,296	49,298	52,712

At 31 December 2022 management estimates the fair value of collaterals held against individually past due and impaired Islamic finance facilities to KD **82,682 thousand** (2021: KD 70,427 thousand).

30.3 Market risk

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

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

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

30.4 Foreign currency risk

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

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

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.4 Foreign currency risk (continued)

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

		2022		2021	
		Effect on profit	**Effect on equity**	Effect on profit	Effect on equity
		KD'000's	**KD'000's**	KD'000's	KD'000's
US Dollar	+5	**(212)**	**70**	(148)	141
Sterling Pound	+5	**(48)**	**118**	(52)	30
Euro	+5	**-**	**-**	3	-
Sudanese Pound	+5	**-**	**87**	1	72
Japanese Yen	+5	**-**	**-**	2	-
Others	+5	**(142)**	**149**	(164)	165

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

Equity price risk

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

For such investments classified as FVOCI, a five percent increase in stock prices as at 31 December 2022 would have increased equity by **KD 912 thousand** (2021: an increase of KD 993 thousand). An equal change in the opposite direction would have had equal, but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

30.5 Liquidity risk

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

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

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.5 Liquidity risk (continued)

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

	Up to three months KD'000's	3 to 6 months KD'000's	6 months to one year KD'000's	Over 1 year KD'000's	Total KD'000's
2022					
Assets					
Cash and balances with banks	**533,183**	**-**	**-**	**-**	**533,183**
Deposits with Central Bank of Kuwait	**191,402**	**52,353**	**4,047**	**-**	**247,802**
Deposits with Banks	**131,685**	**-**	**-**	**-**	**131,685**
Islamic financing to customers	**2,734,418**	**474,327**	**186,016**	**2,518,757**	**5,913,518**
Investment in Sukuk	**139,405**	**14,068**	**3,038**	**453,054**	**609,565**
Other investment securities	**-**	**-**	**-**	**155,156**	**155,156**
Investment properties	**-**	**-**	**-**	**33,618**	**33,618**
Other assets	**79,175**	**-**	**25,603**	**22,818**	**127,596**
Property and equipment	**-**	**-**	**-**	**128,634**	**128,634**
Total assets	**3,809,268**	**540,748**	**218,704**	**3,312,037**	**7,880,757**
Liabilities and Equity					
Due to banks	**198,678**	**-**	**-**	**-**	**198,678**
Depositors' accounts	**4,575,348**	**583,981**	**631,373**	**171,026**	**5,961,728**
Medium term financing	**-**	**-**	**76,575**	**561,054**	**637,629**
Other liabilities	**18,883**	**-**	**10,073**	**74,067**	**103,023**
Equity	**-**	**-**	**-**	**979,699**	**979,699**
Total liabilities and equity	**4,792,909**	**583,981**	**718,021**	**1,785,846**	**7,880,757**
Derivative Financial instruments settled on a gross basis					
Contractual amounts payable	**334,351**	**46,986**	**-**	**-**	**381,337**
Contractual amounts receivable	**334,645**	**46,428**	**-**	**-**	**381,073**
2021					
Assets					
Cash and balances with banks	350,500	-	-	-	350,500
Deposits with Central Bank of Kuwait	180,754	42,064	3,040	-	225,858
Deposits with Banks	387,915	-	-	-	387,915
Islamic financing to customers	1,998,579	416,170	294,167	2,804,158	5,513,074
Investment in Sukuk	87,232	32,659	19,225	390,137	529,253
Other investment securities	-	-	-	125,875	125,875
Investment properties	-	-	-	21,706	21,706
Other assets	70,550	-	3,865	15,100	89,515
Property and equipment	-	-	-	108,203	108,203
Total assets	3,075,530	490,893	320,297	3,465,179	7,351,899
Liabilities and Equity					
Due to banks	395,150	-	-	-	395,150
Depositors' accounts	4,084,631	693,090	536,709	304,357	5,618,787
Medium term financing	-	-	-	485,371	485,371
Other liabilities	31,272	-	30,722	40,525	102,519
Equity	-	-	-	750,072	750,072
Total liabilities and equity	4,511,053	693,090	567,431	1,580,325	7,351,899
Derivative Financial instruments settled on a gross basis					
Contractual amounts payable	244,341	266,559	106,024	-	616,924
Contractual amounts receivable	243,975	266,682	105,755	-	616,412

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.5 Liquidity risk (continued)

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

	Up to three months KD'000's	**3 to 6 months KD'000's**	**6 months to one year KD'000's**	**Over 1 year KD'000's**	**Total KD'000's**
2022					
Financial liabilities					
Due to banks	**198,996**	**-**	**-**	**-**	**198,996**
Depositors' accounts	**4,588,030**	**592,216**	**648,453**	**183,139**	**6,011,838**
Medium term financing	**9,470**	**3,842**	**89,377**	**603,508**	**706,197**
	4,796,496	**596,058**	**737,830**	**786,647**	**6,917,031**
Contingent liabilities and capital commitments					
Contingent liabilities	**94,179**	**62,881**	**116,269**	**134,010**	**407,339**
Other commitments	**944**	**353**	**13,134**	**121,392**	**135,823**
	95,123	**63,234**	**129,403**	**255,402**	**543,162**

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

30.6 Profit Rate Risk

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

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

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

30.7 Operational risk

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

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

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

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.8 Fair value of financial instruments

Fair values are obtained from quoted market prices, discounted cash flow models and other models as appropriate. The carrying values of financial instruments are approximate to their fair values as at 31 December 2022 due to relatively short-term maturity of the instruments.

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

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

Fair value hierarchy

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

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

	Level 1	**Level 2**	**Level 3**	**Total**
2022	**KD'000's**	**KD'000's**	**KD'000's**	**KD'000's**
Financial assets at fair value through profit or loss	**-**	**134,373**	**-**	**134,373**
Investment in Sukuk	**609,565**	**-**	**-**	**609,565**
Financial assets at fair value through other comprehensive income	**2,939**	**-**	**15,310**	**18,249**
	612,504	**134,373**	**15,310**	**762,187**
2021				
Financial assets at fair value through profit or loss	-	102,848	-	102,848
Investment in Sukuk	529,253	-	-	529,253
Financial assets at fair value through other comprehensive income	3,253	-	16,600	19,853
	532,506	102,848	16,600	651,954

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

	At 1 January 2022	**Change in fair value**	**Additions/ transfers**	**Sale/ redemption**	**Exchange rate movements**	**At 31 December 2022**
	KD'000's	**KD'000's**	**KD'000's**	**KD'000's**	**KD'000's**	**KD'000's**
2022						
Assets measured at fair value						
Financial assets at fair value through other comprehensive income	**16,600**	**(3,404)**	**3,337**	**(1,247)**	**24**	**15,310**

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

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.8 Fair value of financial instruments (continued)

Fair value hierarchy (continued)

The significant unobservable inputs used in the fair value measurement categorised within Level 3 of the fair value hierarchy together with a quantitative sensitivity analysis as at 31 December 2022 are not material.

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

30.9 Capital management

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

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

The Group's regulatory capital and capital adequacy ratios for the years ended 31 December 2022 and 31 December 2021 are calculated in accordance with Central Bank of Kuwait circular numbers 2/RB, RBA/336/2014 dated 24 June 2014, 2/BS/IBS/454/2020 dated 02 April 2020 and 2/RB, RBA/488/2021 dated 11 October 2021 related to Basel III regulations which are shown below:

	2022	2021
	KD'000's	KD'000's
Risk weighted assets	**5,137,120**	4,727,562
Capital required	**719,197**	661,859
Capital available		
Common Equity Tier 1 Capital	**777,787**	567,528
Additional Tier 1 Capital	**152,708**	149,544
Tier 1 Capital	**930,495**	717,072
Tier 2 Capital	**64,445**	58,354
Total Capital	**994,940**	775,426
Common Equity Tier 1 Capital Adequacy Ratio	**15.14%**	12.00%
Tier 1 Capital Adequacy Ratio	**18.11%**	15.17%
Total Capital Adequacy Ratio	**19.37%**	16.40%

The Group's financial leverage ratio for the year ended 31 December 2022 is calculated in accordance with Central Bank of Kuwait circular number 2/RBA/ 343/2014 dated 21 October 2014 and is shown below:

	2022	2021
	KD'000's	KD'000's
Tier 1 Capital	**930,495**	717,072
Total Exposures	**8,231,962**	7,652,065
Financial Leverage Ratio	**11.30%**	9.37%

The disclosures relating to the capital adequacy regulations issued by Central Bank of Kuwait as stipulated in Central Bank of Kuwait's circular number 2/RB, RBA/336/2014 dated 24 June 2014 and disclosures related to financial leverage ratio as stipulated in Central Bank of Kuwait's circular number 2/RBA/ 343/2014 dated 21 October 2014 for the year ended 31 December 2022 are included under the 'Risk Management' section of the annual report.

31. DERIVATIVES

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

Currency swaps

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

Profit rate swaps

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

Forward foreign exchange contracts

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

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

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

	2022			2021		
	Positive fair value	**Negative fair value**	**Notional**	Positive fair value	Negative fair value	Notional
	KD'000s	**KD'000s**	**KD'000s**	KD'000s	KD'000s	KD'000s
Profit rate swaps (held as fair value hedges)	**23,776**	**(9,773)**	**558,354**	1,255	(13,583)	396,059
Cross currency swaps	**340**	**(558)**	**245,385**	895	(384)	607,357
Forward foreign exchange contracts	**204**	**(480)**	**134,730**	-	(10)	8,664
	24,320	**(10,811)**	**938,469**	2,150	(13,977)	1,012,080

All of the above Islamic derivative financial instruments are included in Level 2 of fair value hierarchy as at 31 December 2022 and 2021.

32. FIDUCIARY ASSETS

The aggregate value of assets held in a trust or fiduciary capacity by the Group as at 31 December 2022 amounted to **KD 618,294 thousand** (2021: KD 660,123 thousand) and the related income from these assets amounted to **KD 6,527 thousand** (2021: KD 3,450 thousand).

33. IMPACT OF COVID-19

In response to the Covid-19 pandemic, Central Bank of Kuwait implemented various measures during years 2020 and 2021 targeted at reinforcing the banking sectors ability to play a vital role in the economy. Those measures are disclosed in the Group's annual consolidated financial statements for the year ended 31 December 2021 and 31 December 2020.

34. CHANGES IN REFERENCE RATES (IBOR)

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

The Group successfully completed the transition of a significant portion of its IBOR exposure to RFRs in 2021 and 2022.The Group is now confident that it has the operational capability to process the remaining transitions to RFRs

for those profit rate benchmarks, that will cease to be available after 30 June 2023.

IBOR reform exposes the Group to various risks, which the project is managing and monitoring closely. These risks include but are not limited to the following:

- Conduct risk arising from discussions with clients and market counterparties due to the amendments required to existing contracts necessary to effect IBOR reform
- Financial risk to the Group and its clients that markets are disrupted due to IBOR reform giving rise to financial losses
- Pricing risk from the potential lack of market information if liquidity in IBORs reduces and RFRs are illiquid and unobservable.
- Operational risk arising from changes to the Group's IT systems and processes, also the risk of payments being disrupted if an IBOR ceases to be available
- Accounting risk if the Group's hedging relationships fail and from unrepresentative income statement volatility as financial instruments transition to RFRs

Financial assets and liabilities

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

The Group's exposure to financial assets and liabilities that are based on USD LIBOR maturing after June 2023 is **KD 341,050 thousands** and **KD 260,786 thousands** respectively (2021: KD 364,237 thousands and KD 256,234 thousands).

The Group is in discussion with the counterparties clients to effect an orderly transition of USD exposures to the relevant RFR.

Derivatives held for hedging purposes

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

The notional value of USD LIBOR derivatives designated as fair value hedges, maturing after June 2023, is **KD 323,422 thousands** as at 31 December 2022 (2021 : KD 324,410 thousands). The Group has applied the hedging relief available under the amendments to IFRS 9 Financial Instruments relating to profit rate benchmark reforms such as relief on assessment of economic relationship between hedged items and hedging instruments except for the non-USD linked hedging instruments already transitioned to RFR rates.

Towards perfection