بنك بوبيان
Boubyan Bank

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

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H.H. Sheikh
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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

Fahad Ahmad Al-Fouzan
Director

Hazim Ali Al-Mutairi
Director

Mohamed Yousef Al-Saqer
Director

Waleed Mishari Al-Hamad
Director

Waleed Ibrahim Al-Asfour
Director

Waleed Abdullah Al-Houti
Director

Shari’a Supervisory Board

Sheikh Dr.
Abdulaziz Khalifa Al-Qasar
Chairman

Sheikh Dr.
Esame Khalaf Al-Enezi
Member/Reporter

Sheikh Dr.
Mohammed Awad Al-Fuzaie
Member

Sheikh Dr.
Ali Ibrahim Al-Rashid
Member

Executive Management

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

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

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

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Adel Abdullah Al-Hammad
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Abdullah Ahmed Al-Mehri
Chief Operating Officer

Ashraf Abdallah Sewilam
Group General Manager
Corporate Banking Group

Abdul Rahman Hamza Mansour
Chief Internal Auditor
Internal Audit Group

Mohamed Ibrahim Ismail
Group General Manager
Financial Control Group

Maged George Fanous
Chief Risk Officer
Risk Management Group

Adel Rashed Al-Mutairi
Treasurer
Treasury Group

Chairman's Message

Chairman's Message

Dear Valued Shareholders and Investors,

First, on behalf of my fellow Board Directors, the Executive Management and myself, I am pleased to present the Annual Report of Boubyan Bank Group for year 2020, which encompasses the financial statements and a highlight of the bank's activities and numerous accomplishments during the year.

Despite the challenges during last year, we have successfully achieved remarkable accomplishments, by the Grace of Allah, the Almighty, in the growth of our operational activities, the solid leadership in digital banking in the local market, and the progress in the execution of the business plan and strategic vision.

Kuwait faced sadness with the death of the Amir of Humanity, Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah (may Allah have mercy on him), who was the inspirer of the Kuwait economic vision for 2035. With his absence, Kuwait, Arab and Islamic nations have lost a leader in humanitarian values. However, our condolences remains with the successors His Highness, the Amir of Kuwait, Sheikh Nawaf Al-Ahmad Al-Jaber Al-Sabah and His Highness, the Crown Prince, Sheikh Meshal Al-Ahmad Al-Jaber Al-Sabah.

Furthermore, Boubyan Bank Group lost its Chairman – Mr. Mahmoud Yousef Al-Fulaij (may Allah have mercy on him), who was among the leading supporters for the remarkable turnaround of Boubyan since the preparation of the first five year plan in year 2010.

COVID 19 Pandemic

The COVID 19 Pandemic shed its consequences on the economy in general, and the financial and banking sector in particular as the growth of global and local economies slowed-down due to the pandemic. This had driven the banks worldwide to take precautions, including booking contingent provisions to avoid financial and economic consequences related to the pandemic.

However, with the Grace of Allah, Almighty, we succeeded during 2020 in accomplishing the business and activities of Boubyan Bank Group in line with the business plan and strategies. Thus, we present to you a highlight on these achievements within the upcoming sections.

Distinguished Financial Achievements

Despite the consequences of COVID 19 Pandemic on the banking sector, Boubyan Bank has achieved remarkable results, where net operating profit reached KD 93.1 million compared to KD 84.7 million with a growth rate of 10%. However, the net profit declined from KD 62.6 million in 2019 to KD 34.4 million because of booking contingent provisions due to the Pandemic. Thus, the earnings per share reached 9.66 Fils compared to 19.41 Fils for the previous year.

It is worth mentioning that the growth in profitability of the bank is mainly attributed to the success bestowed by Allah, the Almighty, upon us as well as the confidence of the shareholders and customers in the bank, and the efforts exerted by the employees and their unwavering dedication and keenness on delivering the highest service levels to customers. This success is further driven by the innovation and creativity, which are well rooted in our business strategies, along with the acquisition of Bank London and Middle East in line with the strategic plan of the bank.

The total assets increased to approximately KD 6.4 billion at a growth rate of 21%, and operational revenues increased to reach KD 167.5 million at a growth rate of 15%, along with an increase in financing portfolio to reach KD 4.82 billion at a growth rate of 26% in line with the steady growth of the bank's customer base.

Furthermore, the total equity attributable to shareholders reached KD 518 million compared to KD 575 million last year, along with an increase in customer deposits to reach KD 5.11 billion at a growth rate of 17%.

It is worth mentioning that despite the solid financial position, capital adequacy, and growth of business activities and operating profit of the bank, no cash dividends have been proposed for this year with an objective to solidify the financial position taking into consideration the exceptional circumstances of the global and local economies due to the COVID 19 Pandemic, which has not been yet fully overcome.

Accordingly, the Board of Directors proposed a distribution of 5% in bonus shares (5 shares for each 100 shares). Furthermore, the Board of Directors proposed a board remuneration of KD 450 thousand for 2020 similar to the previous year.

With regard to the market share, our share in local finance increased to reach 10.13% compared to 9.31% by the end of previous year, while the share of the retail finance increased to exceed 14%.

The Third Five-Year Strategy

Despite the challenges during this stage, we have remained steadfast in our mission to continue on with the third phase of our five year strategy – Boubyan 2023, moving into a "steady-state" growth built on our core business platform. Our domestic foundation has provided us with the opportunity to strengthen our international presence with our subsidiary BLME, and to develop exciting new digital banking platforms, thus keeping with our pledge to be leaders in innovation – and providing our customers with effective banking and wealth management solutions.

Chairman's Message

Acquisition of BLME

In line with our strategic objectives to enhance global presence and focus on digital banking services, Boubyan Bank was able in 2020 to acquire Bank London and Middle East (BLME) in the UK. Hence, Boubyan Bank has now a foreign banking arm as a platform to enhance its customer base through focusing on wealth management and digital banking services.

Supreme Retail Banking Services

While we celebrated our 16th year of success, we have achieved during this year significant milestones in our strive for perfection. We have worked vigorously 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. Guided by Boubyan Bank's strategy; the bank's natural DNA, creativity, digital innovation and resilience have pushed the market and ourselves to develop new products, improve our services, and systems to create the most reliable and advanced banking experience for our customers.

Our initiatives to become the main digital player in the banking arena in the past couple of years, has seen its potential during the pandemic where we have maintained and exceeded the markets delivery and customer experience and satisfaction. Trust in digital banking is also on the rise due to the recent pandemic that we are all trying to overcome. This pandemic has intuitively pushed people to adopt digital technologies, out of necessity, such as digital chat and AI communication. The bank's digital strategy revolves around our passion in being customer centric in anything we do.

Active Expansion

Being available and ready to serve our customers remains our top priority. We have further strengthened our communication channels with customers to ensure we gain their satisfaction on the usual banking transactions. We have increased our branch network and redesigned our branches to serve our customers across the country and have redefined and transformed processes to ensure fast and seamless customer experiences.

By understanding our customers' needs, for banking services in these digital times, we have expanded our Boubyan Direct to 38 locations, with face-to-face video service available 24/7 to address any of our customers banking needs. Most importantly, ITM's provide the convenience of an actual teller, which ensures that the customer gets the full in-branch experience. That includes discussing loan and credit options, account opening applications and accessing other critical services that may be difficult to navigate on a touchscreen. Our network of 249 ATMs is well distributed for all day to day services in addition to issuing new debit and credit cards to ensure convenience and accessibility to our customers.

Pioneer in Customer Satisfaction

In our relentless focus on customer service, to excel in every product digital or traditional, every service and every customer interaction, the customers have 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 the customers' trust. Boubyan Bank maintained its very high overall satisfaction score for the 4th consecutive year in a row; an achievement that was never seen in such indexes and being the highest within all local and conventional banks.

Boubyan Bank has attained the Best Islamic Bank in Customer Service Award for the 10th year in a row from Service Hero, in addition to the "Customer Service Country Winner" for the 5th year in a row, which awards the bank the distinction of being the best service provider amongst all industries. These results reflect our forever commitment to customer service as a main competitive advantage, as well as within our organization's performance measures.

Innovation & Creativity – A Key Success Factor

As a bank sponsoring "Fintech", we have partnerships with potential start-ups and new market participants who are pushing to innovate products and services. This is a milestone in its digital journey as the bank continues to pay significant attention to innovation and partnerships in Fintech.

With the launch of our newly redeveloped and redesigned Mobile app, we are still sharpening our innovation efforts and adapting an agile methodology and delivering a number of 'First-in-Kuwait' products for our customers, thus advancing the banking industry in Kuwait and delighting our customers with new, advanced and easy to use products.

Our innovative products, include but not limited to:

- Launching the First digital Virtual Credit Card with NFC payment for Android phone users. Customers can create their new cards on a completely digital journey from applying to card activation, and all by a few clicks and within one minute.
- Enabling first digital end-to-end requests for credit cards and printing through ATMs/ITMs. This service allows our customers to issue new cards from their mobile phones and receive the physical card through our ATMs/ITMs at any time for their convenience, without referring to their branch or being limited to operating hours.
- Issuance of first specialized "15th Anniversary Metal Credit Card" with contactless feature. A new card that represents an evolution in card design and functionality in Kuwait.
- Extending Kuwait's first Chatbot (Msa3ed, which we launched in 2018) to the popularly used "WhatsApp" application for quick customer enquiries in addition to a "call back feature" that is linked to the bank's Call Center.
- Focusing on youth proposition through digitization and loyalty. Enhanced the Youth value proposition with a new look & feel, as well as launching the first youth specific mobile banking app in Kuwait focusing on their needs.

There are two areas that are especially significant and represent the bulk of the value; the automation of servicing and fulfillment processes and the migration of customer experience to digital channels. We are continuing our investment in implementing Robotic Process Automation (RPA) technology to increase efficiency and develop 'Fintech ready' information systems and capabilities. Automation enables cost reductions within a range of internal processes, like deployment of work-flow tools and self-servicing capabilities for staff. Developing customer experience supports diverting existing branch activity into digital channels, and therefore leading to drastic enhancements.

All these efforts and meticulous planning and execution have been honored with various awards that marked another milestone in Boubyan's journey of success. This includes winning the "Best Islamic Bank" Awards in the Middle East and Kuwait from Global Finance and the "Best Innovative Digital Bank" Award from Global Finance for the second year in a row.

Distinguished Corporate Banking Services

Boubyan Bank targets companies in the local market within all various sectors and sizes as the Corporate Banking Group aspires to provide innovative banking services and products, with focus on developing and enhancing the digital services and products. This is to enable accommodating the global developments, along with maintaining high quality service standards. The Corporate Baking Group constantly takes care as well of the SMEs to provide best banking services that meet their need and enable them fulfilling their aspirations.

Under the current circumstances, as the world is facing the COVID 19 Pandemic, the necessity to provide digital banking services and products has proven its importance, in line with the strategies and plans of the bank. Hence, the Corporate Banking Group has assured continuous developments of the banking services and products to the local companies from technical and digital aspects. Such developments included adding various services through internet and Boubyan Application for corporates, along with enhancing the internal processes for the bank; such developments considered the following essential aspects:

- Boubyan Bank closely and regularly takes care of the customers' needs, and measures the satisfaction levels of banking services and products related to corporate banking. Hence, a specialized team visits customers on a regular basis to enhance and develop the services and products, 10 to 15% of corporate customers are surveyed, where a high level of satisfaction on all provided services to the corporate customers is noted from the surveys.

Chairman's Message

- The indicators supported the increase in the number of users for banking services through internet and technological devices for the corporates; this increase for electronic banking service is subsequent to the beginning of COVID 19 Pandemic. To maintain the safety of the customers, the bank targets to provide comprehensive banking experience based on the latest digital solutions in a secured manner to maintain privacy and confidentiality of the customers.
- The Corporate Banking Group provides distinguished and unique services and products in both conventional and digital forms, with attention to be provided in a professional manner and high quality. The Group is developing an advanced electronic system to manage the Factoring products and services. Also, the Group is developing a product/service a cash management solution for corporates through Boubyan Application and Internet Banking to meet their banking requirements. For supplementary services, the Group works on providing best solutions through issuance and management of corporate credit cards in line with the credit terms and conditions.
- In line with the continuous digital development, the Group launched the trial version of the innovatively developed services and products through internet and technological devices.
- Boubyan Bank promotes the culture of governance and compliance through elaborating its feasibility to the corporate customers as it is a primary pillar for credit assessment. Also, the relation managers participate in promoting the awareness among the corporates to enhance the governance culture to reduce their risks; this enables the relation managers to contribute in the risk assessment of the corporate customers.
- Boubyan Bank ensures meeting the requirements of the customers through the communication in a periodic manner to update the customer files for secured and advanced services in line with the internal procedures and controls related to granting credit to customer and following-up in compliance with the regulations and instructions of the Central Bank of Kuwait.

Young and Ambitious Human Resources

Boubyan Bank gives a special attention to its human resources as a part of the strategy for being a modern bank, which keeps up with international and regional developments through our young management team. The bank is distinguished for entrusting the youth with leading roles, especially that all training and academic facilities and capabilities are available to provide them with a unique opportunity to gain professional and practical expertise, which would boost their experiences at a young age. Boubyan Bank has succeeded over the past years in creating many job opportunities for ambitious Kuwaiti youth through the expansion of its services and branches.

This has made our bank an attractive choice for Kuwaiti youth who are interested in working for the private sector in general, and the banking industry specifically, due to the environment of creativity and innovation prevalent in the bank, which unleashes the energy and ambitions of the youth.

During the year, the bank managed to maintain the ratio of national manpower to reach about 77%. This percentage is not only considered as the highest amongst Kuwaiti banks, but also in the Kuwaiti private sector. The bank continues to be a role model to follow in the field of recruiting domestic manpower and creating distinctive job opportunities in the region.

Effective Social Responsibility

Social responsibility is the cornerstone of the bank's dealings across all groups of society in the contribution to the development, and to building a society which is able to keep pace with all regional and international changes. Accordingly, the bank took the lead in launching a variety of social initiatives and sponsoring numerous activities and events targeting various groups of the society.

The bank's social responsibility emanates from the fact that it is a bank operating in compliance with the principles of the Noble Islamic Shari'ah, and based on the spirit of Islam that enjoins cooperation, selflessness and helping various groups of the society, especially those in need or not able to afford the basic needs of life.

Despite COVID 19 Pandemic, the bank continued its interaction with various segments of the society, particularly the youth, who received support from the bank at various levels and in different domains, along with the effective role played by our branches in providing services to their neighborhoods and interacting with various sectors. We introduced various initiatives for the first time in the State of Kuwait. Furthermore, many parties benefitted from such events whether they were customers or non-customers of the bank.

Sound Governance

Boubyan Bank is committed to following a sound and effective governance framework by adopting the best sound governance and risk management standards. The bank complies with these standards in concluding all transactions according to the principles and rulings of the Noble Islamic Shari'ah. Boubyan Bank continuously updates its governance structure in a manner that meets the requirements of the Central Bank of Kuwait, and the banking industry-specific governance procedures. During 2020, we have complied with the Corporate Governance requirements issued by the Central Bank of Kuwait, except for the election of independent Board Directors as it was postponed to 2021 due to the circumstances of COVID 19 Pandemic.

Without doubt, the acquisition of the National Bank of Kuwait of a significant stake in the bank in 2009, along with all its long-established expertise and deeply-rooted history, played a major role in supporting the bank's strategy and the entry and expansion in the Kuwaiti market without compromising the bank's crystal-clear Islamic identity. This is being achieved while maintaining full operational segregation between both banks in order to comply with the principles and rulings of the Noble Islamic Shari'ah and, thus, enhancing the sound governance environment at Boubyan Bank.

Thank You!

Finally, 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 Sabah Al-Ahmad Al-Jaber Al-Sabah, may Allah protect him as well as to H.H., the Crown Prince, Sheikh Meshal Al-Ahmad Al-Jaber Al-Sabah, and H.H the Prime Minister, Sheikh Sabah Khalid Al-Hamad 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, Dr. Mohammed Al-Hashel, who spared no effort to take the actions deemed appropriate to develop and safeguard the Kuwaiti banking system, especially the tremendous efforts to face the consequences of COVID 19 Pandemic on the Kuwait economy in general and Banking sector in particular.

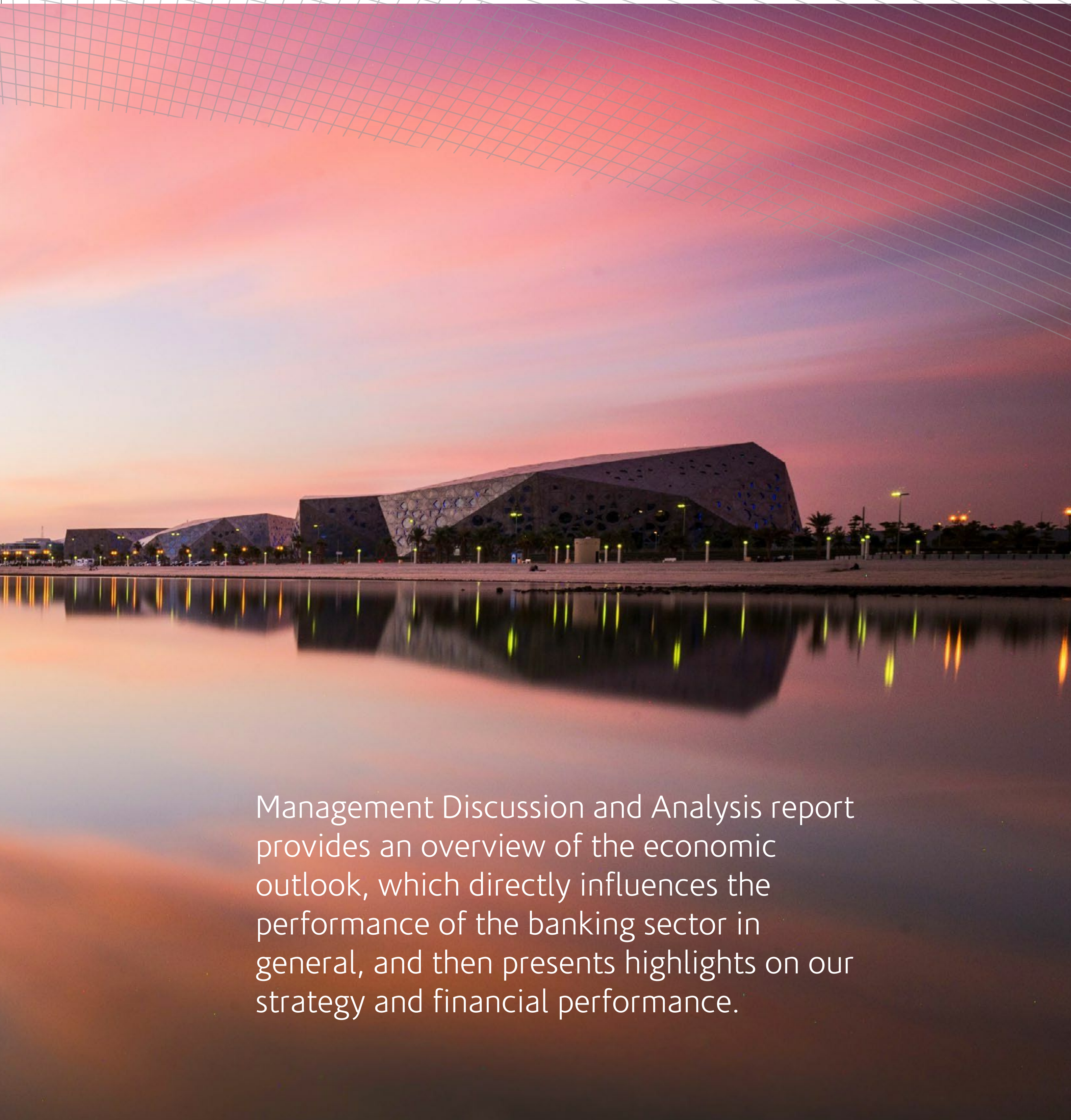
I would also like to express deepest thanks to all the bank's esteemed shareholders and customers who have always been the key factor behind our success for their support to confront the challenges. My deepest thanks are also extended to all members of the Bank's Fatwa and Shari'ah Supervisory Board, headed by Sheikh Dr. Abdulaziz Khalifa Al-Qasar, for their great efforts in guiding the Bank's Islamic activities, services and dealings.

Finally, I would like to extend deepest appreciation to all Boubyan Bank's board directors, executive management and employees, and thank them for their dedication as they spared no effort all through the past years, and I am pleased to express my appreciation for their constant adherence to the one-team spirit, to realize more success for our promising bank. I hope that the coming years will be a new stage driving the bank towards an unprecedented development leading it to more achievements and realization of objectives that place it among the leading Islamic banks in the region.

Peace be with you!

Abdulaziz Abdullah Dakheel Al-Shaya
Chairman

Management Discussion and Analysis Report



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.

Management Discussion and Analysis Report

Economic Outlook

Global Economy

The 2020 year saw the COVID-19 pandemic trigger the deepest global recession since the Second World War. Global real GDP growth is forecasted to contract by 4.4 percent in 2020 as a consequence of the pandemic, however it is expected to recover in 2021 with growth of 5.2 percent according to International Monetary Fund (IMF) estimates. Low policy rates, numerous government stimulus measures and accelerated vaccination initiatives are likely to support the global economy over the next two years and nurture a steady return to growth. However, a downward scenario remains where the pandemic cannot be controlled or the roll out of vaccine is delayed which could negatively affect future growth prospects.

The US economy contracted in 2020 amid the pandemic by a forecast 4.3 percent, with growth of 3.1 percent projected in 2021 (IMF). The Federal Reserve cut its policy rates twice in early 2020 totaling 150 bps in response to concerns over global the outlook, and to prevent further amplification of the COVID-19 pandemic shock reverberating through the financial market. The indication is that the Fed will keep policy rates near zero for the near to medium term.

Economic activity in the Eurozone also contracted in 2020 owing to the pandemic and accompanying lockdowns, weakening trade and business activity across service and manufacturing industries. As per the IMF, economic growth contracted by an estimated 8.3 percent in 2020 and is expected to rebound in 2021 with growth of 5.1 percent in 2021. Similarly, the outcome of the post-Brexit trade agreement between the United Kingdom and the European Union will also have an impact on the Eurozone growth.

Declines in advanced Asian economies GDP are projected to be somewhat more moderate than in the US and the Eurozone with a contraction of 3.3 percent in 2020 to rebound with a 6 percent growth in 2021. China in particular is expected to grow by 10 percent over 2020-21 due to the faster normalization of activity after much of the country reopened in April 2020. The IMF projects all emerging Asian economies to contract in 2020, notably including the larger economies of India and Indonesia with the former expected to contract by 10.2 percent in 2020.

Overall, the global journey of economic recovery is underway following periods of lockdowns, benefitted by numerous government support measures and being further buoyed by the regulatory approvals achieved for a number of vaccines in late 2020. Additionally, prospects of a continued low rate environment can support debt service burdens in many countries. Nevertheless the global recovery retains a degree of uncertainty and is expected to be uneven between advanced and developing economies, with additional challenges for tourism and commodity-based economies.

Regional Economy

The 2020 year saw the GCC faced with a double impact from both the COVID-19 pandemic and lower oil prices, which together will see an estimated contraction of 6 percent in 2020 followed by a 2.3 percent return to growth in 2021. Non-oil growth is projected to contract by 5.8 percent in light of the lockdowns while oil growth GDP is forecast to decline by 6.2 percent by the IMF.

Regional governments implemented a number of measures to curtail the spread of COVID-19 including curfews, travel restrictions, quarantines, closures of schools and businesses. A number of various economic policy measures were undertaken across the GCC to mitigate the consequences associated with the pandemic. These included tax and government fee deferrals or exemptions, job support measures, household benefits, relaxation of macro-prudential rules, loan repayment deferrals and reductions in policy rates.

March 2020 saw the breakdown in OPEC+ talks, which resulted in a glut of oil supply. This was followed by the COVID-19 outbreak bringing about an unprecedented decline in global oil demand in mid-2020 as lockdowns heavily reduced industrial and transportation consumption needs, thereby reducing prices to historic low levels. Oil prices are expected to gradually increase due to production cuts, and increase in demand from the reopening of economies

Lower oil exports have weakened external balances in the region, with exports forecast to decline in 2020 resulting in a sharp contraction in the current account balance projected from a surplus of 5.8 percent of GDP in 2019 to a deficit of 1.8 percent of GDP in 2020 according to the IMF.

The combination of lower oil revenues, economic contraction and increased government spending on fiscal support measures have led to large deficits of a projected 9.2 percent of GDP in 2020 from 2 percent in 2019 as per IMF estimates. This is expected to narrow in 2021 to 5.7 percent.

Headline inflation across the GCC has remained subdued and is projected at 1.5 percent in 2020 somewhat driven by inflation in Saudi Arabia following the increase in VAT from 5 to 15 percent.

Rate decreases were broadly consistent with the US Federal Reserve cuts, with policy rates expected to remain accommodative for the foreseeable future in the GCC, as GCC currencies are either pegged or loosely pegged to the USD. GCC banks are well capitalized with relatively low NPLs, however credit risks could rise if there is a continuation of the low oil price environment or significant delays in the economic recovery from the pandemic impact.

The sustainable economic recovery into 2021 and beyond for each of the GCC countries is contingent on containment of the pandemic, stabilizing oil prices and an accelerating vaccine rollout.

Kuwait Economy

Kuwait's economy in 2020 is forecast to experience its largest contraction since 2009 at -7.9 percent following periods of pandemic impacted economic activity, in addition to lower oil revenues from both the lower oil price and Kuwait's participation in the OPEC+ production cuts as per World Bank.

Research analysts project Oil GDP to decline in the range of 8-10 percent in 2020, with 2021 forecast to see modest growth of 1.5 percent given continued OPEC+ production agreement. Non-oil GDP is forecast to decline by 7 percent in 2020 primarily from the movement restrictions imposed to combat the pandemic; however 2021 is expected to see stronger consumer and corporate activity with a growth of 3 percent.

Inflation remains subdued in Kuwait in 2020 due to decline in housing rents offset by higher food and furnishing prices. This is expected to rise gradually in 2021 as economic activity recovers to around 2 percent according to World Bank estimates.

Domestic credit grew by an estimated 3.6 percent in 2020 and is expected to rise to 4 percent in 2021 being driven by business lending in the context of an accommodative monetary policy and, a graduated return to normal operating conditions. Household or consumer credit is forecast to grow at around 3 percent in both 2020 and 2021, with growth muted somewhat by efforts to reduce expatriate numbers in the country.

The real estate market in 2020 was understandably subdued for the first seven months of 2020 with sales down by 50 percent across residential, commercial and investment subsectors. However, following the lifting of most lockdown restrictions sales staged a strong recovery across all subsectors in the third quarter likely due to pent up demand. Residential sales in the third quarter were at their highest since 2013 with home and land prices rises 4 and 6 percent respectively year-on year. Commercial and investment real estate however face headwinds due to the impact of the pandemic on business activity and decline in the expatriate population.

Following four consecutive years of positive market performance, Kuwait stocks declined 11.7 percent, the largest decline amongst the GCC markets, with the Premier Market index witnessing a decline of 13.3%. The total market cap for the exchange fell 9.2 percent in 2020 to KD 33.0 billion. The MSCI EM upgrade occurred in November 2020 improving access for international investors and attracted inflows of around US$ 3 billion.

Banking Sector

Despite the challenging operating environment in 2020, the Kuwaiti banking sector remains resilient. The deposit portfolio of the local banks reached approximately KD 49.2 billion by the end of 2020 with a compounded annual growth rate of 4% over the last five years. On the other side, the respective credit portfolio has reached approximately KD 40.9 billion by the end of 2020 with a compounded annual growth rate of 5% over the same period.

The banking sector in Kuwait maintains a potential for growth with positive credit growth of an estimated 3.6% in 2020, with 2021 expected to rise to 4 percent driven primarily by business lending given the accommodative monetary policy environment and gradual normalization of business operating conditions.

On the monetary front, The Central Bank of Kuwait ("CBK") reduced its benchmark discount rate by 125 bps to 1.50 percent in early 2020 consistent with decreases by US Federal Reserve in response to the emerging COVID 19 pandemic. Furthermore, in response to the COVID-19 pandemic the Central Bank undertook a number of measures to enhance the abilities of banks to play a role in the economy. Notably this included the provision of a six-month moratorium for consumer and SME finance from April 2020 without charging additional profit for the postponement as well as reducing some capital and liquidity requirements for Banks.

Management Discussion and Analysis Report

Strategy Highlights

The Bank is currently implementing its third five-year strategy - "Boubyan 2023", which builds on the Group's robust domestic foundations and strengthening international presence. The focus will be to upgrade product portfolio, focus on target customer segments, enhance digital proposition and invest in human resources. During 2020, the Bank undertook its first international expansion with the successful acquisition of BLME Holdings plc (BLME) a Sharia'a compliant bank in the United Kingdom in January 2020. The acquisition will enable the Bank to provide its existing and future clients with additional Sharia compliant UK services offerings, particularly wealth management opportunities and deploying its digital capabilities in BLME's business.

Boubyan's success is highlighted through a number of achievements:

- Successful acquisition of BLME with ownership increased to 71%
- Boubyan continued robust double digit growth performance in 2020
- The Bank outperformed competitors on key metrics
- Outperformed the market in innovative technology banking products and services in the Kuwaiti market.
- Enhanced digital proposition in corporate and retail banking services
- Has one of the highest Kuwaiti manpower ratio in the private sector at 77%
- Launching various social initiatives as part of Corporate Social Responsibility including contribution to the Government's COVID relief fund
- Issuance of a landmark US$750 million 5-year sukuk, the largest sukuk issued out of Kuwait.
- Moody's affirmed overall credit rating of A3 and Ba1 for Baseline with a stable outlook.
- Standard & Poor's Global rating agency assigned Long-Term Issuer Credit Rating at "A-/Stable".
- Fitch affirmed Long term IDR of A+ and Viability rating of BBB-.
- Financing portfolio compounded annual growth rate of 18% over the last 5 years. Boubyan is now the 3rd largest bank in Kuwait in terms of financing portfolio and 4th largest in terms of total assets.
- Non-Performing Financing ratio of 1.1% in 2020 remaining one of the lowest rates in the industry.
- Awards from reputable organizations such as The Banker, Global Finance and Service Hero on financial performance, banking safety and service excellence respectively.

Financial Highlights

KD '000s

	2020	2019	2018
Financial performance			
Net financing income	138,889	119,459	120,306
Operating income	167,482	145,769	139,721
Net profit attributable to Equity holders of the Bank	34,421	62,647	56,108
Earnings per share – fils (restated)	9.7	19.41	19.2
Financial position			
Total assets	6,437,149	5,300,548	4,344,778
Financing receivables	4,823,266	3,826,073	3,330,746
Investments	673,361	487,229	435,791
Total depositors' accounts	5,107,728	4,347,226	3,720,935
Total shareholders' equity	517,860	575,448	408,257
Key performance ratios			
Return on average assets	0.6%	1.3%	1.4%
Return on average shareholders' equity*	5.3%	11.7%	13.0%
Cost-income ratio	44.4%	41.9%	40.6%
Non-performing financing ratio	1.1%	0.9%	0.9%
Provision coverage ratio	235%	211%	252%
Capital Ratios			
Capital Adequacy Ratio	16.9%	20.3%	18.2%
Tier 1 Ratio	15.6%	19.2%	17.1%
CET 1 Ratio	13.7%	16.8%	14.3%
Leverage ratio	9.4%	11.2%	10.0%

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

For the year ended December 31, 2020, net profit attributable to Equity holders of the Bank declined by 45% to KD 34.4 Million, or 9.7 fils per share, from KD 62.6 Million, or 19.4 fils per share, in 2019. This decrease is primarily attributable to the prudent allocation of precautionary provisions raised to manage any potential consequences arising from the COVID-19 pandemic.

Operating income increased by 15% in 2020 to KD 167.5 Million compared to KD 145.8 Million in 2019. This increase was mainly driven by the acquisition of BLME and organic growth in core financing income. Net financing income increased by 16% to KD 138.9 Million compared to KD 119.5 Million in 2019 for the most part by the growth in the Banks financing portfolio of 26% offset by some compression in margins during the year.

The Bank's profit margin of 2.4% compared to 2.7% in 2019 is a result of high fluctuations in profit rates both locally and internationally from late 2019 and to a lesser extent reflected some lagged impact on higher funding costs of increases in the benchmark rates from 2018.

Net investment income grew by KD 0.6 Million or 10% while net fee income declined by KD 4.2 Million; a decline of 25% primarily as a result of the business lockdown periods.

Operating expenses increased by 22% to KD 74.4 Million, compared to KD 61.1 Million in 2019, driven primarily by the acquisition and consolidation of BLME in addition to general inflation and continued investments in digital transformation.

Provision for impairment increased by 215% to KD 59Million. The increase in current period was primarily on account of prudent allocation of precautionary provisions to bolster the Bank's ability to manage any potential impacts from the Covid-19 pandemic.

The non-performing financing ratio stood at 1.1%, while an increase of 0.2% from 2019, remains one of the lowest in the market, along with high coverage ratio of 235%.

Total assets grew by 21% in 2020 to reach KD 6.4 Billion. The growth was primarily driven by the acquisition of BLME in addition to continued organic growth in the Banks' financing portfolio and investments. In total the financing portfolio grew by 26% in 2020 to reach KD 4.8 Billion. Consumer and corporate financing portfolios grew by 14% and 11% respectively in 2020. Credit facilities growth was mainly from resident customers.

During 2020, customer deposits grew by 17% to reach KD 5.1 Billion.

The Bank remains well capitalized with a Capital Adequacy Ratio of 16.9% in 2020, from 20.3% in 2019 resulting from consolidation of BLME and the continued growth in the Bank's core business.

The shareholders equity decreased to KD 517 Million; a decline of 10% in 2020. This decline incorporates the recognition of a 'day one loss' of KD 48m associated with the six-month loan deferral decision.

The Board of Directors have proposed stock dividends of 5% for the year 2020 by transferring from voluntary reserve which are subject to approval at the forthcoming Annual General Assembly meeting.

Governance Report

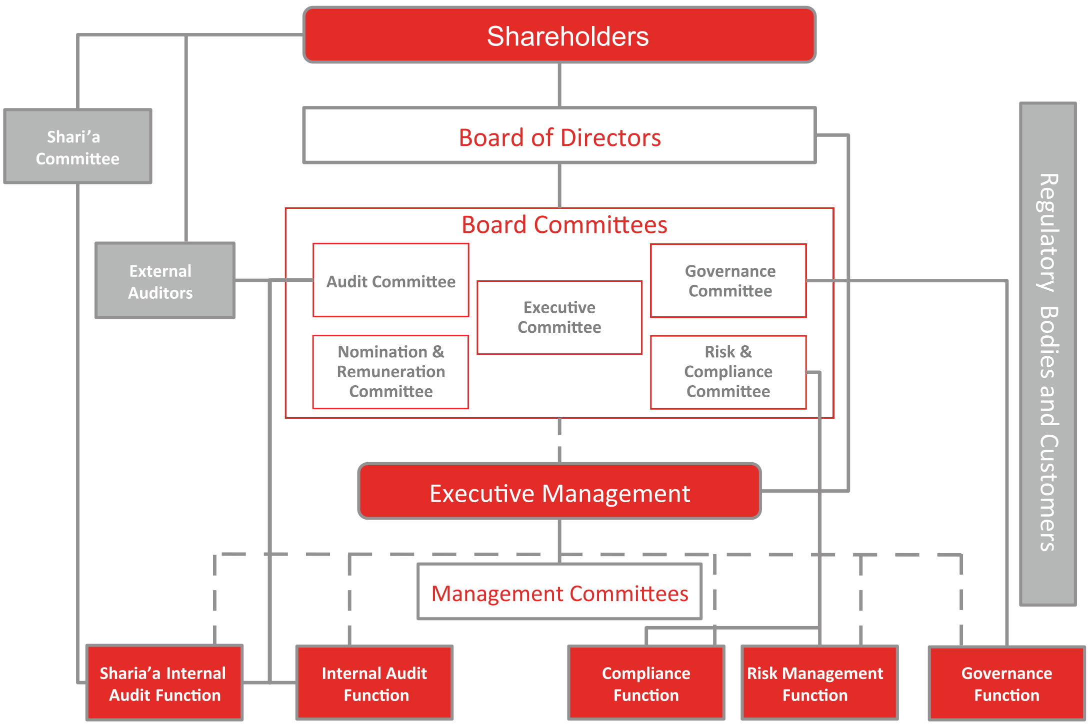
Governance Statement

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 our continuous endeavor 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 2020 a proper implementation of the "Governance Framework" in line with the "Governance Manual", whilst the Pandemic challenges of COVID 19. We ensured adequate compliance with the Corporate Governance and Sharia'a 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, except for the selection of Independent Board Directors as it was postponed to 2021 due to COVID 19 circumstances.

Governance Framework



Governance Report

Board of Directors

Boubyan Bank is managed by a Board of Directors (the 'Board'), which currently consists of nine Directors elected by the shareholders under a mandate to deliver sustainable value to all stakeholders, including depositors / customers, shareholders, employees, and society. However, the Board will comprise of eleven Directors in 2021 as two Independent Board Directors will be elected.

The Board is granted the highest authorities and overall responsibilities by the shareholders to manage the Bank. The Board operates in line with the by-laws of the Bank and its charter, where its scope of work includes but is not limited to:

- Setting the strategies and risk appetite for the Bank.
- Approving capital and operating plans presented by management for the achievement of the Bank's strategic objectives.
- Ensuring efficient application of the resources for the achievement of the objectives.
- Monitoring the performance of Executive Management.

Directors

Abdulaziz Abdullah Dakheel Al-Shaya

Chairman

Year of joining: 2009

Skills and Experience:

Mr. Al-Shaya is a well-known businessman with more than 42 years of experience in trading and real estate sectors; he manages a trading company in Kuwait. Mr. Al-Shaya holds a bachelor's degree in Economics from Kuwait University.

Other current posts:

- Vice Chairman – Awtad Real Estate Company, KSCC (Kuwait)
- Vice Chairman – Orient Education Services Company, KSCC (Kuwait)
- Vice Chairman of Trustees – Algonquin College (Kuwait)

Adel Abdul Wahab Al-Majed

Vice-Chairman & Group Chief Executive Officer (Executive)

Year of joining: 2010

Skills and Experience:

Mr. Al-Majed joined Boubyan Bank in August 2009, and 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.

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 42 years of experience in banking and real estate sectors; he owns a real estate company. Mr. Al-Othman holds a bachelor's degree in Industrial Engineering from Syracuse University - USA.

Other current posts:

- Member of the Trustees of the Estate of the Late Abdullah Abdulatif Al-Othman (Kuwait).
- Member of the Executive Committee for the Implementation of the Charity Projects of the Late Abdullah Abdulatif Al-Othman (Kuwait)

Fahad Ahmad Al-Fouzan

Director (Non-Executive)

Year of joining: 2020

Skills and Experience:

Mr. Al-Fouzan is a businessman with more than 36 years of experience, including 30 years of experience in banking sector, where he worked in various leadership positions. He manages a contracting company in Kuwait. Mr. Al-Fouzan holds a bachelor's degree in Accounting from Kuwait University.

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 28 years in the fields of financing, investment, and banking. He is currently the CEO of a holding company. He graduated from the United States of America with a bachelor's degree in Finance.

Other current posts:
- Board Director – Warba Insurance Company, KPSC (Kuwait)
- Board Director – Idafa Holding Company, KSCC (Kuwait)

Mohamed Yousef Al-Saqer
Director (Non-Executive)
Year of joining: 2019

Skills and Experience:
Mr. Al-Saqer is a well-known businessman with more than 32 years of experience in business; he is the managing partner of two trading companies in Kuwait. Mr. Al-Saqer holds a bachelor's degree in Public Administration from Point Park University - USA.

Waleed Mishari Al-Hamad
Director (Non-Executive)
Year of joining: 2010

Skills and Experience:
Mr. Al-Hamad has more than 30 years of experience, including 11 years in banking and the remaining in the investment sector; he is the Managing Director of a holding company in Kuwait. Mr. Al-Hamad possesses a bachelor's degree in Economics, and a master's degree in Finance from the United States of America.

Other current posts:
- Board Director and CEO – Helvetia Arab Holding Company, KSCC (Kuwait)

Waleed Ibrahim Al-Asfour
Director (Non-Executive)
Year of joining: 2019

Skills and Experience:
Mr. Al-Asfour possesses more than 37 years of experience in real estate and financial sectors. He manages a real estate company and an investment company in Kuwait. Mr. Al-Asfour graduated from Kuwait University with a bachelor's degree in Business Administration - Finance.

Other current posts:
- Vice Chairman – Al-Wodouh Capital Holding Company, KSCC (Kuwait)
- Board Director – Shorooq for Medical Services Company, KSCC (Kuwait)
- Managing Partner - Market Plus Real Estate (Kuwait)

Waleed Abdullah Al-Houti
Director (Non-Executive)
Year of joining: 2019

Skills and Experience:
Mr.Al-Houti possesses around 40 years of experience in financial and oil sectors. He is currently a Chairman of Kuwaiti shareholding company, which invests in petroleum services. Mr. Al-Houti graduated from Kuwait University with a bachelor's degree in Business Administration - Finance.

Other current posts:
- Chairman – Al-Dorra for Petroleum Services Company, KSCC (Kuwait)
- Vice -Chairman – Makamen for Oil and Gas Services Company (Saudi Arabia)

Governance Report

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 appointed by the shareholders. Within the Board, only the Vice-Chairman & Group CEO is entrusted with executive role; all other Board Directors are Non-Executive 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 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 profile and the reporting of performance, where the decisions of the Board are not dominated by certain individuals or groups.

Further, Non-Executive Directors are independent in post and judgment as supported by the Board "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 Directors will be managed and cleared as per the adopted policies. Hence, the Bank confirms the independency 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 implement proper governance practices, which meet the relevant governance regulatory requirements and extend to reflect applicable leading 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. Boubyan Governance Framework has enabled the Board to successfully manage the business continuity during the Pandemic of COVID 19 in 2020.

Authorities

The Board is responsible for managing the business of Boubyan Bank and, in doing so, 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 undertaking, property or assets (present or future) of Boubyan Bank, and may exercise any of the authorities delegated by the shareholders in a 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 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.

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 laundry 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 comprises 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 2020, Boubyan Bank conducted performance assessment for the Board and Board Directors in line 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 the Board Directors were clearly aware of their duties and fulfilled them accordingly. Furthermore, there are no areas of concerns 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 by the Board and reflected within the 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 Committees

Board of Directors

Board Executive Committee (BEC)	Adel Abdul Wahab Al-Majed * Hazim Ali Al-Mutairi Waleed Ibrahim Al-Asfour Waleed Abdullah Al-Houti
Board Nomination & Remuneration Committee (BNRC)	Mohamed Yousef Al- Saqer * Fahad Ahmad Al-Fouzan Hazim Ali Al-Mutairi Waleed Mishari Al-Hamad
Board Governance Committee (BGC)	Abdulaziz Abdullah Al-Shaya * Adel Abdul Wahab Al-Majed Fahad Ahmad Al-Fouzan Hazim Ali Al-Mutairi
Board Audit Committee (BAC)	Adnan Abdullah Al-Othman * Mohamed Yousef Al- Saqer Waleed Mishari Al-Hamad
Board Risk and Compliance Committee (BRCC)	Waleed Mishari Al-Hamad* Mohamed Yousef Al- Saqer Adnan Abdullah Al-Othman

* Chairperson

Governance Report

Details of Key Committees

Board Executive Committee (BEC)

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.

Activities during the year:

During 2020, the BEC met thirty-six times, almost on a weekly basis; the Committee performed various activities, which included but were not limited to:

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

Board Nomination and Remuneration Committee (BNRC)

The BNRC comprises of four Board Directors; the members of the BNRC have collective experience in banking, business, and Islamic Sharia'a.

As per the charter of the BNRC, the Committee should meet at least four times a year. 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, and ensuring the presence of proper employee succession plan.

Activities during the year:

During 2020, the BNRC met four times; the activities of the BNRC included but were not limited to:

- Review the proposed remuneration schemes and propose recommendations to the Board.
- Administer Board Performance Assessment.
- Conduct performance assessment for Fatwa and Sharia'a 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.

Board Governance Committee (BGC)

The BGC comprises of four Board Directors; the Chairman is the chairperson on the BGC, whose members have collective experience in banking, business, and governance.

The Committee should meet at least twice a year. The main role of the BGC 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.

Activities during the year:

During 2020, the BGC met twice in line with the minimum requirements; the BGC covered the following activities:

- Approve the governance report.
- Discuss the governance review reports of the Corporate Governance Unit and follow up on the status of respective actions.
- Follow-up on the implementation of CBK Corporate and Sharia'a 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 three Board Directors, whose members have collective experience in banking, business, governance, and audit. None of the BAC members is a member of the Board Executive Committee.

The BAC should meet at least on a quarterly basis; and its main role includes:

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

Activities during the year:
The BAC met seven times during 2020, including a meeting every quarter in line with the corporate governance regulatory requirements, the activities of the BAC included but were not limited to:
- Approve internal audit plan.
- Discuss internal audit reports, management letters of external auditors, and ICR report.
- Review annual and quarterly financial statements.
- Approve the accounting policies.
- Follow up on internal audit, management letter, ICR, and CBK observations and respective actions.
- Discuss the Sharia'a' internal audit reports.
- Meet the External Auditors and the External Sharia'a Auditors.

Board Risk Management and Compliance Committee (BRCC)

The BRCC comprises of three Board Directors; and none of its members is a member of Board Executive Committee.

As per its charter, the BRCC meets at least four times a year, and reports on its activities to the Board on a periodic basis. The role of the BRCC includes:
- Assessing the Risk Appetite measures, Risk Strategy, and other risk related measures, and 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.

Activities during the year:
During 2020, the BRCC met five times; and its activities included but were not limited to the following:
- Review of the Risk Appetite measures.
- Approve various policies, such as Credit Risk Policy & Corporate Finance Policy.
- Discuss quarterly Risk Profile reports.
- Review periodic ICAAP & Stress Testing reports.
- Discuss Risk Asset Review reports.
- Discuss activity reports pertaining to Compliance and AML functions.
- Monitor the Business Continuity during the Pandemic.

Meetings of Board and Board Committees

Attendance Number of Meetings Minimum Required Meetings	Board 8 6	BEC 36 6	BNRC 4 4	BCGC 2 2	BAC 7 4	BRCC 5 4
Abdulaziz Abdullah Dakheel Al-Shaya	8 (a)		1 (b)	2 (a)		
Adel Abdul Wahab Al-Majed	7	35 (a)		2		
Adnan Abdullah Al-Othman	7				7 (a)	5
Fahad Ahmad Al-Fouzan (New Director)	4 (c)		3 (c)	2		
Hazim Ali Al-Mutairi	4	31	3	1		
Mohamed Yousef Al-Saqer	8		4 (a)		7	5
Waleed Mishari Al-Hamad	7		4		7	5 (a)
Waleed Ibrahim Al-Asfour	8	36				
Waleed Abdullah Al-Houti	8	36				

(a) Chairperson (b) Before 16/8/2020 (c) After 16/8/2020

Governance Report

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 32 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 got 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
Chief Executive Officer – Corporate Banking, Financial Control, Treasury & Legal Affairs

Mr. Al-Saleh joined Boubyan Bank in October 2012, and has more than 33 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 got 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 37 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 20 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 University in Kuwait; he attended as well various executive management development programs at Harvard.

Ashraf Abdallah Sewilam

Group General Manager – Corporate Banking Group

Mr. Sewilam joined Boubyan Bank in 2013, and has over 27 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 George Fanous

Chief Risk Officer – Risk Management Group

Mr. Fanous joined Boubyan Bank in February 2018; he has over 33 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.

Adel Rashed Al-Mutairi

Treasurer - Treasury Group

Mr. Al-Mutairi joined the Bank in 2015 and has over 17 years of experience in banking sector, mainly in treasury services. Prior to joining Boubyan, he held the position as the Deputy Treasurer at Warba Bank. Mr. Al-Mutairi 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.

Jabra Raja Ghandour

Chief Executive Officer - Boubyan Capital

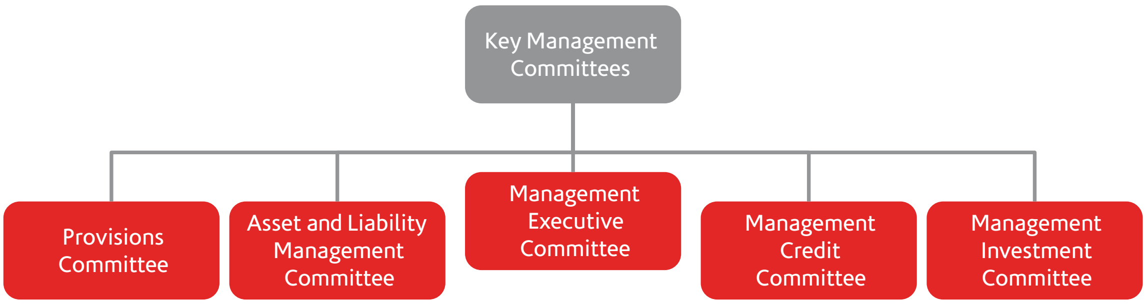
Mr. Ghandour joined Boubyan Group in 2018; he has over 35 years of experience in banking and investment sectors. Prior to joining Boubyan Capital, he was the CEO and Board Director of Bank London and Middle East. He worked earlier with NBK Group as Managing Director of International Bank of Qatar, General Manager of NBK-Jordan and Head of Private Banking of NBK-Kuwait. Mr. Ghandour holds a master's degree and a bachelor's degree in engineering from University of Texas; he attended executive management program at Wharton Business School.

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.

Key Management Committees

The Key Management Committees are as follows:



Management Executive Committee (MEC)

This committee deals with all significant management level matters other than those handled by other management committees. The MEC meets on ad hoc 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 MCC 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 MCC usually meets on a weekly 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 ALCO meets on a monthly 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 PVC 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'a 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 and 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:

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

Internal Control Review

In year 2020, Boubyan Bank engaged an external auditor in line with the CBK regulation to conduct an independent internal control review for year 2019 activities. Based on the review of the external auditor, no exceptions pertaining to governance aspects were noted. Further, the report of the external auditor conveyed 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 Review Report

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Kuwait

Opinion letter

The Board of Directors
Boubyan Bank
P.O.Box 25507, Safat,13116
State of Kuwait.

27 September, 2020

Dear Sirs,

Report on Accounting and Other Records and Internal Control Systems

In accordance with our letter of engagement dated 10 March 2020, we have examined the accounting and other records and internal control systems of Boubyan Bank K.S.C.P. ("the bank") and the following subsidiaries of the bank (hereafter collectively referred to as "the group") for the year ended 31 December 2019:

- Boubyan Capital Investment Company (K.S.C.P)
- Boubyan Takaful Insurance Company (K.S.C.P)

We covered the following areas of the Bank:

- Corporate Governance Unit;
- Corporate Banking Group;
- Treasury Group;
- Consumer Banking Group;
- Financial Control Group;
- Banking Operations Group;
- Information Technology Group;
- Risk Management Group;
- Compliance Division;
- Anti-Money Laundering Department;
- Human Resources Group;
- Legal Affairs Division;
- Sharia'a Internal Audit Division;
- Internal Audit Group;
- Corporate Communication Department;
- Administration Group;
- Complaints Unit;
- Confidentiality of Customers' Information;
- Anti-Fraud and embezzlement systems,
- Financial Securities

Our examination has been carried out as per the requirements of the Central Bank of Kuwait (CBK) circular dated 14 January 2020 considering the requirements contained in the Manual of General Directives 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 its amendments on 10 September 2019, instructions dated 14 May 2019 concerning Anti-money laundering and combating financing of terrorism, 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.

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BDO

As members of the Board of Directors of the 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 provide reasonable, but not absolute, assurance 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; and to enable you to conduct the business in a prudent manner.

Because of inherent limitations and internal control system, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the systems to future periods is subject to the risk that management information and control procedures may become inadequate because of changes in conditions or that the degree of compliance with those procedures may deteriorate.

Having regard to the nature and volumes of the Group's operations, during the year ended 31 December 2019, and the materiality and risk rating of our findings, and the exception of matters set out in the report submitted to the Board of Directors of the Bank, in our opinion:

a) the accounting and other records and internal control systems of the Group were established and maintained in accordance with the requirements of the Manual of General Directives issued by the CBK on 15 June 2003 and letter issued by CBK on 14 January 2020,

b) the findings raised in the examination and assessment of the internal controls do not have a material impact on the fair presentation of the financial statements of the group for the year ended 31 December 2019, and

c) the actions taken by the group to address the findings referred in the report, including previous years' findings, are satisfactory.

Yours faithfully,

Qais M. Al Nisf
License No. 38 "A"
BDO Al Nisf & Partners

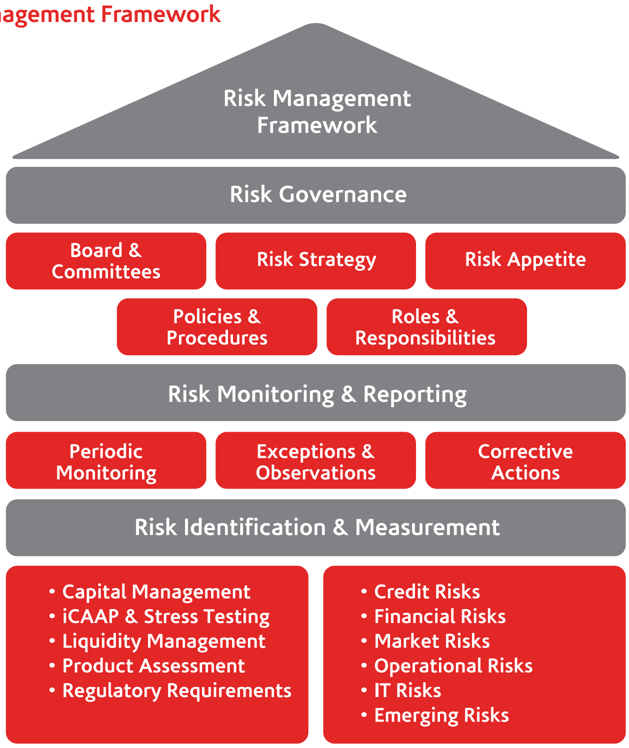
Risk Management

Risk Management Framework

Risk management is a core focus at Boubyan Bank. This is driven by the responsibility of the Board of Directors to ensure having a "fit for the purpose" Risk Management function to protect the best interests of all stakeholders, especially the depositors / customers. Boubyan Bank has a Board Risk Management and Compliance Committee (BRCC), which oversees the Risk Management function.

Boubyan Bank perceives Risk Management as an integrated function with the business activities, which is guided by a well-balanced Risk Appetite model; accordingly, we adopt the philosophy of "risk is everyone's business". Accordingly, Boubyan Bank follows a "Three-Lines 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
- 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 the year, 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 preliminary 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 per the 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 employee for his executive role.

For year 2020, the Board has proposed annual remuneration of KD 450 thousand to be allocated among the Board Directors as follows: KD 70 thousand to the Chairman, KD 55 thousand for each member of the Board Executive Committee, and KD 40 thousand for each other Board Directors. This proposal is subject to the approval of the shareholders.

Employee Remuneration

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 could be in the form of cash bonus and/or deferred cash bonus. The variable remuneration are 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 year ended 31 December 2020:

Employees Categories	Number of Employees	Fixed Remuneration KD'000	Variable Remuneration KD'000		Total KD'000
			Cash	Deferred Cash	
Senior Management	40	5,004	685	965	6,654
Material Risk Takers	24	2,849	400	592	3,841
Financial and Risk Control	21	1,500	147	194	1,841

Categories Definitions:

- Senior Management includes all staff in the positions of Assistant General Manager and above, and employees, whose hiring are subject to approval of regulators.
- Material Risk Takers includes all staff whose activities and decisions have a material impact on the risk profile of the bank.
- 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 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 package of KD 3,047 thousand for the year ended 31 December 2020.

Major Shareholders

As of December 31, 2020, the major shareholders owning or controlling more than 5% of capital were as follows:

Name of Shareholder	Percentage of Ownership
National Bank of Kuwait S.A.K	59.9%
The Commercial Bank of Kuwait S.A.K	9.7%

Social Responsibility

2020 … A Different Year in the History of Kuwait & Mankind

Everyone in Kuwait or the world agrees that 2020 was different by all human standards, and it will be remembered for being the year where all aspects of life came to a halt simultaneously at the four corners of the world. We will forever remember the Covid-19 pandemic that affected the whole world and led to the forced shutdown of all economic sectors, leaving people isolated inside their homes and changing their daily lives drastically.

Speaking about the social role played by Boubyan Bank or its corporate social responsibility will not naturally be independent from the role it has been playing to fight the outbreak of the Covid-19 pandemic or its repercussions on individual or corporate customers or the relationship of the bank with various segments of the society.

Over the very first months and ever since the Covid-19 pandemic was in an upward curve, Boubyan Bank has been taking effective measures and steps that emphasize its ability to manage crises, whether in terms of customer service or in terms of playing its social role with various segments of the society.

Supporting Government and Customers' Efforts

This began with Boubyan Bank's contribution to the KD 10 million fund established by the Central Bank of Kuwait, and funded by Kuwaiti banks, to support the government's efforts to fight the Covid-19 outbreak.

Moreover, the bank was keen to take into consideration customers' circumstances, and acting as per the resolution of Kuwait Banking Association, Boubyan Bank dedicated all its resources to implementing the resolution of deferring all the installments of financing and credit cards for all customers in addition to deferring the installments of SMEs for a six-month period effective April 2020, while cancelling all profits arising from such a deferral along with any other charges.

To support its corporate customers, the bank provided concessional financing as a part of the stimulus package approved by the Central Bank of Kuwait to support impacted companies, customers and SMEs.

That initiative aimed at supporting vital sectors and activities that add value to the Kuwaiti economy, and which were efficiently operational before the crisis, while working hand-in-hand with the Central Bank of Kuwait and competent bodies to prevent any exacerbation of the situation by turning from a liquidity crisis to a solvency crisis, to maintain the national manpower and the circular flow of funds between economic sectors.

As a part of its efforts to support small companies, Boubyan Bank announced offering the ePay service for the electronic collection of funds (by sending a payment link to the buyer) free of charge for its SMEs' customer, thereby waiving the service fees for 3 months to help support the projects of young Kuwaitis. This included waiving the fees activation and for each payment transaction in addition to waiving the fees for P.O.S. terminals and payment gateways throughout the same period.

Prevention is Better Than Cure

Ever since the detection of the first Covid-19 case in Kuwait, the bank has taken the measures advised by the instructions of MOH and competent authorities in order to protect the health of its customers, employees and the society in general.

Boubyan Bank implemented the instructions of competent authorities regarding the cleaning and disinfection of all ATMs, branches, and main buildings in addition to fitting hand sanitizer dispensers at all locations. More than 95 hand sanitizer dispensers were fitted to all ATMs, ITMs, and branches' ATMs.

Social Responsibility

Furthermore, more than 120 new hand sanitizer dispensers were fitted inside branches and main buildings of the bank. Face masks were also distributed to all staff of branches and buildings as of the first day following the national holidays.

Boubyan and Frontliners

During the Holy Month of Ramadan, a delegation of Boubyan Bank's senior management, accompanied by Boubyan Bank's team of volunteers, visited the General Department of Civil Defense and Kuwait International Airport, Terminal 4, in coordination with Kuwait Red Crescent to thank them and thank all volunteers for their efforts. This visit was a part of an initiative by Boubyan Bank and its volunteers to show appreciation for the most important entities standing at the front lines to fight the coronavirus risk.

Boubyan Bank did not forget about supporting our brothers in Lebanon amid the disaster that afflicted them last August as a result of the explosion that rocked Downtown Beirut, following which the bank made a financial donation to Kuwait Red Crescent to help with the various relief and reconstruction efforts in Lebanon.

Our Social Activities Held Online

In response to the constant calls from competent authorities to stay at home, Boubyan Bank continued organizing many events and activities through social media platforms or other online platforms.

One of the most prominent events held was the 7th Charitable Reading Marathon organized by the bank through social media platform (Twitter) where more than 2,000 participants tweeted about 5,000 times using the marathon's dedicated hashtag. The marathon's revenues were donated to the needy families.

Boubyan Bank has also announced opening registration for its 6th Annual "Recite with Boubyan" competition for the memorization and recitation of the Glorious Qur'an. This year, it has been dedicated to customers' children who recited by heart and participated in the competition through remote means of communication such as Zoom and WhatsApp, etc.

Moreover, Boubyan Bank has launched its App, Boubyan Steps, allowing everyone to participate by exercising at home as a part of "Steps Campaign" which is organized annually by the bank at Al Hamra Shopping Mall. Participants could use the App to participate in the campaign whose revenues are donated towards eyesight restoration surgeries.

The bank has further launched the Darisni Campaign with Boubyan Bank, and accepted registration from Boubyan Bank's customers and non-customers for 9-12 graders who are enrolled at government schools, especially Arabic curriculum schools, in collaboration with the Darisni App in order to help them continue their academic studies amid these exceptional circumstances accompanying Covid-19 and the transformation to online education.

Over the summer months, Boubyan Bank has organized Boubyan Summer Camp over two months for customers and employees' children using Zoom App. More than 150 children aged 4 to 10 participated in the campaign, and benefited from the training programs offered by the bank.

Additionally, the bank broadcasted many awareness messages about how to fight Covid-19 and prevention measures via the bank's social media platforms as well as holding many weekly messages, thereby creating a bond between the bank and its followers on various social medial platforms.

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

بنك بوبيان
Boubyan Bank

Risk Managment

For the year ended 31 December 2020

1. INRODUCTION AND OVERVIEW

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. As such, and in compliance with the aforementioned instructions, Boubyan Bank K.S.C.P (the "Bank") has developed an ICAAP and Stress Testing framework along with its underlying models, policies and procedures. Boubyan Bank continually enhances its ICAAP and Stress Testing framework to maintain its capital commensurate with the overall risks to which the Bank is exposed. Pillar 3 aims to complement the above capital adequacy requirements under Pillar 1 and Pillar 2 by requiring banks to provide a consistent and understandable disclosure framework which facilitates comparison, thus enhancing the safety and soundness of the banking sector in Kuwait.

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 31 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 2020.

The principal subsidiaries of the Group are presented in the note 16 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 under Note 17 of the Group's consolidated financial statements 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 2020 comprised **3,028,283,433** (31 December 2019 comprised 2,884,079,460) issued and fully-paid up equity shares.

The regulatory capital for the Group is detailed below:

Table 1	**2020** **KD '000s**	2019 KD '000s
Regulatory Capital		
Common Equity Tier 1 Capital	**558,460**	546,790
Additional Tier 1 Capital	**78,015**	75,616
Tier 1 Capital	**636,475**	622,406
Tier 2 Capital	**51,864**	37,288
Total Regulatory Capital	**688,339**	659,694

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:

	2020		2019	
Table 2	**MCR***	**CAR**	MCR*	CAR
Common Equity Tier 1 capital adequacy ratio	**10.00%**	**13.68%**	10.00%	16.84%
Tier 1 capital adequacy ratio	**11.50%**	**15.59%**	11.50%	19.17%
Total Regulatory capital adequacy ratio	**13.50%**	**16.86%**	13.50%	20.32%

* includes a 2.5% capital conservation buffer and 0.5% 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 2020 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 2020 was **KD 492,813 thousand**, (31 December 2019: KD 384,834 thousand) as detailed below:

	2020			2019		
	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	**37,826**	**-**	**-**	38,939	-	-
Claims on sovereigns	**607,392**	**66,641**	**8,663**	646,858	65,081	8,461
Claims on international organisations	**112,570**	**-**	**-**	17,567	-	-
Claims on public sector Entities	**206,444**	**36,073**	**4,689**	119,122	9,395	1,221
Claims on MDBs	**58,176**	**6,078**	**790**	25,682	1,618	210
Claims on banks	**523,134**	**100,634**	**13,082**	479,236	77,409	10,063
Claims on corporates	**2,909,974**	**1,957,553**	**254,482**	2,052,115	1,214,930	157,941
Regulatory retail exposure	**1,854,172**	**1,236,996**	**160,809**	1,612,895	1,078,337	140,184
Past due exposure	**55,018**	**38,875**	**5,054**	20,739	13,855	1,801
Investments in real estate	**47,133**	**94,266**	**12,255**	46,555	93,109	12,104
Investments and financing to customers	**81,057**	**109,955**	**14,294**	124,281	120,211	15,627
Sukuk exposures	**17,982**	**11,998**	**1,560**	73,677	29,452	3,829
Other exposures*	**257,140**	**131,804**	**17,135**	271,966	256,871	33,393
	6,768,018	**3,790,873**	**492,813**	5,529,632	2,960,268	384,834

*"Other exposures" above includes a threshold deduction of **KD 2,088 thousand** (31 December 2019: KD 34,014 thousand) and an amount of **KD 78,002 thousand** negative (31 December 2019: KD 19,613 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 1,255 thousand** arising only from foreign exchange risk, (31 December 2019: KD 3,751 thousand).

5.3 Operational Risk:

The Minimum Capital requirement (MCR) in respect of operational risk was **KD 36,804 thousand**, (31 December 2019: KD 33,398 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. 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.

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.

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. RISK MANAGEMENT (CONTINUED)

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:

6.2.1 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 risk management function in co-ordination with line management and the Management Credit Committee and continually enhanced in line with industry credit risk management "best practices".
- All new proposals and / or material changes to existing credit facilities are reviewed and approved by either the Board Executive Committee or the Management Credit Committee.
- The credit facility administration process is undertaken by a segregated function to ensure proper execution of all credit approvals and maintenance of documentation, and proactive control over maturities, expiry of limits, collateral valuation and contractual covenants.

6. RISK MANAGEMENT (CONTINUED)

6.2 Risk management processes (continued)

6.2.5 Key features of consumer credit risk management

- 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 for applicants 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 statistics, to assist in assessing an applicant's ability to repay and the probability of default. This model is reviewed and refined continually.

6.2.6 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.

6.2.7 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.

Boubyan Bank

6. RISK MANAGEMENT (CONTINUED)

6.2 Risk management processes (Continued)

6.2.8 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:

	2020		2019	
	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	**37,826**	**-**	38,939	-
Claims on sovereigns	**607,392**	**-**	646,858	-
Claims on international organisations	**112,570**	**-**	17,567	-
Claims on public sector Entities	**206,444**	**-**	119,122	-
Claims on MDBs	**58,176**	**-**	25,682	-
Claims on banks	**523,134**	**-**	479,236	-
Claims on corporates	**2,909,974**	**286,465**	2,052,115	289,895
Regulatory retail exposure	**1,854,172**	**-**	1,612,895	-
Past due exposure	**55,018**	**487**	20,739	-
Investments in real estate	**47,133**	**-**	46,555	-
Investments and financing to customers	**81,057**	**516**	124,281	4,413
Sukuk exposures	**17,982**	**-**	73,677	-
Other exposures	**257,140**	**-**	271,966	-
	6,768,018	**287,468**	5,529,632	294,308

6. RISK MANAGEMENT (CONTINUED)

6.2 Risk management processes (continued)

6.2.9 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:

	2020			2019		
	Gross credit exposure	**Self-funded exposure**	**Funded through investments accounts exposure**	Gross credit exposure	Self-funded exposure	Funded through investments accounts exposure
Table 5	**KD '000s**	**KD '000s**	**KD '000s**	KD '000s	KD '000s	KD '000s
Cash	**37,826**	**13,016**	**24,810**	38,939	13,128	25,811
Claims on sovereigns	**607,392**	**203,142**	**404,250**	646,858	218,085	428,773
Claims on international organisations	**112,570**	**37,649**	**74,921**	17,567	5,923	11,644
Claims on public sector Entities	**206,444**	**104,009**	**102,435**	119,122	40,161	78,961
Claims on MDBs	**58,176**	**36,920**	**21,256**	25,682	8,658	17,024
Claims on banks	**523,134**	**263,410**	**259,724**	479,236	178,812	300,424
Claims on corporates	**2,909,974**	**1,412,200**	**1,497,774**	2,052,115	792,073	1,260,042
Regulatory retail exposure	**1,854,172**	**620,128**	**1,234,044**	1,612,895	543,780	1,069,115
Past due exposure	**55,018**	**23,629**	**31,389**	20,739	6,992	13,747
Investments in real estate	**47,133**	**47,133**	**-**	46,555	46,555	-
Investments and financing to customers	**81,057**	**66,237**	**14,820**	124,281	41,901	82,380
Sukuk exposures	**17,982**	**6,014**	**11,968**	73,677	24,840	48,837
Other exposures	**257,140**	**156,216**	**100,924**	271,966	178,960	93,006
	6,768,018	**2,989,703**	**3,778,315**	5,529,632	2,099,868	3,429,764

	2020			2019		
	***Average credit exposure**	**Self-funded exposure**	**Funded through investments accounts exposure**	*Average credit exposure	Self-funded exposure	Funded through investments accounts exposure
Table 6	**KD '000s**	**KD '000s**	**KD '000s**	KD '000s	KD '000s	KD '000s
Cash	**37,170**	**14,014**	**23,156**	37,039	11,535	25,504
Claims on sovereigns	**608,020**	**228,734**	**379,286**	551,226	172,002	379,224
Claims on international organisations	**89,124**	**32,058**	**57,066**	71,748	21,617	50,131
Claims on public sector Entities	**175,811**	**80,408**	**95,403**	120,334	37,081	83,253
Claims on MDBs	**45,155**	**28,719**	**16,436**	22,551	7,080	15,471
Claims on banks	**558,158**	**277,322**	**280,836**	323,537	114,321	209,216
Claims on corporates	**2,883,745**	**1,464,174**	**1,419,571**	1,772,543	658,919	1,113,624
Regulatory retail exposure	**1,711,081**	**627,595**	**1,083,486**	1,535,044	475,130	1,059,914
Past due exposure	**40,896**	**16,070**	**24,826**	17,908	5,531	12,377
Investments in real estate	**47,136**	**47,136**	**-**	30,103	30,103	-
Investments and financing to customers	**76,501**	**61,812**	**14,689**	346,419	102,164	244,255
Sukuk exposures	**34,900**	**13,511**	**21,389**	76,131	23,406	52,725
Other exposures	**243,796**	**154,864**	**88,932**	236,724	153,501	83,223
	6,551,493	**3,046,417**	**3,505,076**	5,141,307	1,812,390	3,328,917

* Based on quarterly average balances

6. RISK MANAGEMENT (CONTINUED)

6.2 Risk management processes (continued)

6.2.9 Gross, average and net credit exposures (continued)

	2020			2019		
	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	**37,826**	**13,016**	**24,810**	38,939	13,128	25,811
Claims on sovereigns	**607,392**	**203,142**	**404,250**	646,858	218,085	428,773
Claims on international organisations	**112,570**	**37,649**	**74,921**	17,567	5,923	11,644
Claims on public sector Entities	**206,444**	**104,009**	**102,435**	119,122	40,161	78,961
Claims on MDBs	**58,176**	**36,920**	**21,256**	25,682	8,658	17,024
Claims on banks	**523,134**	**263,410**	**259,724**	479,236	178,812	300,424
Claims on corporates	**2,623,509**	**1,311,833**	**1,311,676**	1,762,220	688,139	1,074,081
Regulatory retail exposure	**1,854,172**	**620,128**	**1,234,044**	1,612,895	543,780	1,069,115
Past due exposure	**54,532**	**23,466**	**31,066**	20,739	6,992	13,747
Investments in real estate	**47,133**	**47,133**	**-**	46,555	46,555	-
Investments and financing to customers	**80,541**	**66,065**	**14,476**	119,868	40,413	79,455
Sukuk exposures	**17,982**	**6,014**	**11,968**	73,677	24,840	48,837
Other exposures	**257,139**	**156,216**	**100,923**	271,966	178,960	93,006
	6,480,550	**2,889,001**	**3,591,549**	5,235,324	1,994,446	3,240,878

As at 31 December 2020, **22.5%** of the Group's net credit risk exposure was rated by accredited External Credit Assessment Institutions (ECAIs), (31 December 2019: 23.7%) as detailed below:

	2020			2019		
	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	**37,826**	**-**	**37,826**	38,939	-	38,939
Claims on sovereigns	**607,392**	**607,392**	**-**	646,858	646,858	-
Claims on international organisations	**112,570**	**112,570**	**-**	17,567	17,567	-
Claims on public sector Entities	**206,444**	**69,383**	**137,061**	119,122	12,537	106,585
Claims on MDBs	**58,176**	**58,176**	**-**	25,682	25,682	-
Claims on banks	**523,134**	**521,102**	**2,032**	479,236	433,436	45,800
Claims on corporates	**2,623,509**	**30,325**	**2,593,184**	1,762,220	30,663	1,731,557
Regulatory retail exposure	**1,854,172**	**-**	**1,854,172**	1,612,895	-	1,612,895
Past due exposure	**54,532**	**-**	**54,532**	20,739	-	20,739
Investments in real estate	**47,133**	**-**	**47,133**	46,555	-	46,555
Investments and financing to customers	**80,541**	**-**	**80,541**	119,868	-	119,868
Sukuk exposures	**17,982**	**17,982**	**-**	73,677	73,677	-
Other exposures	**257,139**	**38,283**	**218,856**	271,966	-	271,966
	6,480,550	**1,455,213**	**5,025,337**	5,235,324	1,240,420	3,994,904

The Group uses external ratings (where available) from Fitch, S&P and Moody's 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. RISK MANAGEMENT (CONTINUED)

6.2 Risk management processes (continued)

6.2.9 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 2020	**Middle East**	**North America**	**Europe**	**Asia and Other**	**Total**
Table 9	**KD '000s**	**KD '000s**	**KD '000s**	**KD '000s**	**KD '000s**
Cash	**37,278**	**-**	**548**	**-**	**37,826**
Claims on sovereigns	**601,377**	**-**	**-**	**6,015**	**607,392**
Claims on international organisations	**-**	**-**	**-**	**112,570**	**112,570**
Claims on public sector Entities	**196,321**	**-**	**9,510**	**613**	**206,444**
Claims on MDBs	**58,176**	**-**	**-**	**-**	**58,176**
Claims on banks	**335,317**	**55,341**	**122,905**	**9,571**	**523,134**
Claims on corporates	**2,441,656**	**6,347**	**453,588**	**8,383**	**2,909,974**
Regulatory retail exposure	**1,854,172**	**-**	**-**	**-**	**1,854,172**
Past due exposure	**47,264**	**-**	**7,754**	**-**	**55,018**
Investments in real estate	**17,398**	**25,594**	**4,141**	**-**	**47,133**
Investments and financing to customers	**22,435**	**-**	**58,622**	**-**	**81,057**
Sukuk exposures	**17,370**	**-**	**-**	**612**	**17,982**
Other exposures	**220,908**	**33,085**	**3,147**	**-**	**257,140**
	5,849,672	**120,367**	**660,215**	**137,764**	**6,768,018**

31 December 2019	Middle East	North America	Europe	Asia and Other	Total
Table 9	KD '000s	KD '000s	KD '000s	KD '000s	KD '000s
Cash	38,939	-	-	-	38,939
Claims on sovereigns	639,606	-	-	7,252	646,858
Claims on international organisations	-	-	-	17,567	17,567
Claims on public sector Entities	118,568	-	-	554	119,122
Claims on MDBs	25,682	-	-	-	25,682
Claims on banks	386,434	22,123	68,076	2,603	479,236
Claims on corporates	2,044,462	-	-	7,653	2,052,115
Regulatory retail exposure	1,612,895	-	-	-	1,612,895
Past due exposure	20,739	-	-	-	20,739
Investments in real estate	16,167	26,208	4,180	-	46,555
Investments and financing to customers	124,281	-	-	-	124,281
Sukuk exposures	73,121	-	-	556	73,677
Other exposures	209,361	-	57,306	5,299	271,966
	5,310,255	48,331	129,562	41,484	5,529,632

6. RISK MANAGEMENT (CONTINUED)

6.2 Risk management processes (continued)

6.2.9 Gross, average and net credit exposures (continued)

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

31 December 2020	**Up to 3 months**	**3 – 6 months**	**6 – 12 months**	**Over 1 year**	**Total**
Table 10	**KD '000s**	**KD '000s**	**KD '000s**	**KD '000s**	**KD '000s**
Cash	**37,826**	**-**	**-**	**-**	**37,826**
Claims on sovereigns	**396,197**	**57,157**	**6,052**	**147,986**	**607,392**
Claims on international organisations	**100,446**	**12,124**	**-**	**-**	**112,570**
Claims on public sector Entities	**42,306**	**82,581**	**986**	**80,571**	**206,444**
Claims on MDBs	**16,380**	**9,097**	**5,521**	**27,178**	**58,176**
Claims on banks	**415,100**	**202**	**28**	**107,804**	**523,134**
Claims on corporates	**1,865,620**	**306,832**	**419,434**	**318,088**	**2,909,974**
Regulatory retail exposure	**1,082**	**3,985**	**18,451**	**1,830,654**	**1,854,172**
Past due exposure	**55,018**	**-**	**-**	**-**	**55,018**
Investments in real estate	**-**	**-**	**-**	**47,133**	**47,133**
Investments and financing to customers	**55,943**	**12,150**	**5,538**	**7,426**	**81,057**
Sukuk exposures	**-**	**-**	**-**	**17,982**	**17,982**
Other exposures	**31,151**	**-**	**6,100**	**219,889**	**257,140**
	3,017,069	**484,128**	**462,110**	**2,804,711**	**6,768,018**

31 December 2019	Up to 3 months	3 – 6 months	6 – 12 months	Over 1 year	Total
Table 10	KD '000s	KD '000s	KD '000s	KD '000s	KD '000s
Cash	38,939	-	-	-	38,939
Claims on sovereigns	544,945	63,293	16,138	22,482	646,858
Claims on international organisations	16,689	-	-	878	17,567
Claims on public sector Entities	22,738	94,580	-	1,804	119,122
Claims on MDBs	21,830	-	-	3,852	25,682
Claims on banks	349,105	51,028	69,001	10,102	479,236
Claims on corporates	905,516	755,199	243,174	148,226	2,052,115
Regulatory retail exposure	20,884	3,192	15,419	1,573,400	1,612,895
Past due exposure	20,739	-	-	-	20,739
Investments in real estate	-	-	-	46,555	46,555
Investments and financing to customers	96,847	5,404	22,030	-	124,281
Sukuk exposures	49,722	-	-	23,955	73,677
Other exposures	44,543	-	6,291	221,132	271,966
	2,132,497	972,696	372,053	2,052,386	5,529,632

6. RISK MANAGEMENT (CONTINUED)

6.2 Risk management processes (continued)

6.2.10 "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 2020 was **KD 52,071 thousand** against which a specific provision of **KD 3,536 thousand** has been made, (31 December 2019: KD 20,409 thousand and KD 12,476 thousand), as detailed below:

	2020			2019		
	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	**52,968**	**1,912**	**51,056**	23,679	9,039	14,640
Regulatory retail exposure	**2,639**	**1,624**	**1,015**	9,206	3,437	5,769
	55,607	**3,536**	**52,071**	32,885	12,476	20,409

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

	2020			2019		
	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	**47,853**	**7,754**	**55,607**	32,885	-	32,885
Related specific provision	**3,536**	**-**	**3,536**	12,476	-	12,476

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 2020 was **KD 129,900 thousand** inclusive of a general provision of **KD 126,364 thousand**, (31 December 2019: KD 69,336 thousand and KD 56,735 thousand), as detailed below:

	2020	2019
Table 13	**KD '000s**	KD '000s
Claim on corporates	**107,846**	40,893
Regulatory retail exposure	**18,518**	15,842
	126,364	56,735

The total general provision above includes **KD 2,417 thousand** relating to "non-cash" facilities in accordance with CBK regulations, (31 December 2019: KD 2,261 thousand).

6. RISK MANAGEMENT (CONTINUED)

6.2 Risk management processes (continued)

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

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

	2020	2019
Table 14	**KD '000s**	KD '000s
Middle East and North Africa	**110,780**	54,474
North America	**366**	-
Europe & UK	**12,801**	-
	123,947	54,474

The analysis of specific and general provisions is further detailed in note 9 and 14 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.

6.4 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

6.4.1 Operation- risk management framework

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.

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 Bank has a Business Continuity Plan together with a fully-equipped Disaster Recovery Centre which is tested periodically. The Group's business processes are closely monitored to identify, assess, control and prevent potentially illicit use of the Group's services for laundering money and/or financing terrorism. The Group's "anti-money laundering" and "combating terrorism-financing" initiatives are regularly reviewed to ensure full compliance with legal and regulatory requirements and international best practices.

6.5 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. RISK MANAGEMENT (CONTINUED)

6.6 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.

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 increased by **48.4%** to reach **KD 517,186 thousand** on 31 December 2020, (31 December 2019: increased by 46.7% to reach KD 348,614 thousand).

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 2020 is **KD 3 thousand**, (31 December 2019: Nil).

The Shari's Supervisor Board's remuneration for the year ended 31 December 2020 is **KD 102 thousand**, (31 December 2019: 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:

	2020	2019
Table 15	**KD '000s**	KD '000s
Common Equity Tier 1 Capital before regulatory adjustments	**579,914**	549,548
Less:		
Total regulatory adjustments to Common Equity Tier 1	**21,455**	2,758
Deductions from Capital Base arising from Investments in FIs where ownership is > 10%	**-**	-
Common Equity Tier 1 Capital (CET1)	**558,460**	546,790
Additional Tier 1 Capital (AT1)	**78,015**	75,616
Tier 1 Capital (T1 = CET1 + AT1)	**636,475**	622,406
Tier 2 Capital (T2)	**51,864**	37,288
Total Capital (TC = T1 + T2)	**688,339**	659,694
Total risk-weighted assets	**4,083,632**	3,246,032
Capital ratios and buffers		
Common Equity Tier 1 Capital (as percentage of risk-weighted assets)	**13.68%**	16.84%
Tier 1 Capital (as percentage of risk-weighted assets)	**15.59%**	19.17%
Total Regulatory Capital (as percentage of risk-weighted assets)	**16.86%**	20.32%
National minima		
Common Equity Tier 1 minimum ratio including Capital Conservation buffer and D-SIB buffer	**10.00%**	10.00%
Tier 1 minimum ratio	**11.50%**	11.50%
Total capital minimum ratio excluding CCY	**13.50%**	13.50%

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 Table 25.

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 2020 **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	**286,718**	**286,718**	
Deposits with Central Bank of Kuwait	**336,934**	**336,934**	
Deposits with other banks	**180,092**	**180,092**	
Islamic financing to customers	**4,823,266**	**4,823,266**	
of which general provisions(netted above) capped for Tier 2 inclusion	**48,361**	**48,361**	A
Investment in Sukuk	**523,046**	**523,046**	
Other investment securities	**99,109**	**99,109**	
Investment in associates	**4,073**	**4,073**	
of which goodwill	-	-	B
of which investments in the capital of banking entities above the threshold deduction that are outside the scope of regulatory consolidation	-	-	C
Investment properties	**47,133**	**47,133**	
Other assets	**45,419**	**45,419**	
Property and equipment	**91,359**	**91,359**	
Total assets	**6,437,149**	**6,437,149**	
Liabilities			
Due to banks	**281,371**	**281,371**	
Depositors' accounts	**5,107,728**	**5,107,728**	
Medium term financing	**305,509**	**305,509**	
Other liabilities	**115,811**	**115,811**	
Total liabilities	**5,810,419**	**5,810,419**	
Equity			
Share capital	**302,827**	**302,827**	D
Share premium	**156,942**	**156,942**	E
Treasury shares	**(54)**	**(54)**	G
Statutory reserve	**35,512**	**35,512**	H
Voluntary reserve	**30,468**	**30,468**	I
Other reserves	**(21,958)**	**(21,958)**	J
Retained earnings	**14,123**	**14,123**	
of which Retained Earnings eligible as CET1 Capital	**62,355**	**62,355**	K
of which Modification loss on deferral of financing instalments	**(48,232)**	**(48,232)**	
Equity attributable to equity holders of the Bank	**517,860**	**517,860**	
Perpetual Tier 1 Sukuk	**75,388**	**75,388**	L
Non-controlling interests	**33,482**	**33,482**	
of which limited recognition eligible as CET1 Capital	**13,768**	**13,768**	M
of which limited recognition eligible as AT1 Capital	**2,627**	**2,627**	N
of which limited recognition eligible as Tier 2 Capital	**3,503**	**3,503**	O
Total equity	**626,730**	**626,730**	
Total liabilities and equity	**6,437,149**	**6,437,149**	

10. RECONCILIATION REQUIREMENTS (CONTINUED)

31 December 2019 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	232,393	232,393	
Deposits with Central Bank of Kuwait	306,156	306,156	
Deposits with other banks	330,046	330,046	
Islamic financing to customers	3,826,073	3,826,073	
of which general provisions(netted above) capped for Tier 2 inclusion	37,248	37,248	A
Investment in Sukuk	306,315	306,315	
Other investment securities	101,215	101,215	
Investment in associates	33,144	33,144	
of which goodwill	2,704	2,704	B
of which investments in the capital of banking entities above the threshold deduction that are outside the scope of regulatory consolidation	-	-	C
Investment properties	46,555	46,555	
Other assets	32,422	32,422	
Property and equipment	86,229	86,229	
Total assets	**5,300,548**	**5,300,548**	
Liabilities			
Due to banks	236,480	236,480	
Depositors' accounts	4,347,226	4,347,226	
Other liabilities	63,661	63,661	
Total liabilities	**4,647,367**	**4,647,367**	
Equity			
Share capital	288,407	288,407	D
Share premium	156,942	156,942	E
Treasury shares	(54)	(54)	G
Statutory reserve	31,848	31,848	H
Voluntary reserve	30,468	30,468	I
Other reserves	(8,354)	(8,354)	J
Retained earnings	76,191	76,191	
of which Retained Earnings eligible as CET1 Capital	35,817	35,817	K
of which proposed cash dividends	25,954	25,954	
of which proposed cash bonus	14,420	14,420	F
Equity attributable to equity holders of the Bank	**575,448**	**575,448**	
Perpetual Tier 1 Sukuk	75,388	75,388	L
Non-controlling interests	2,345	2,345	
of which limited recognition eligible as CET1 Capital	-	-	
of which limited recognition eligible as AT1 Capital	228	228	M
of which limited recognition eligible as Tier 2 Capital	40	40	N
Total equity	**653,181**	**653,181**	
Total liabilities and equity	**5,300,548**	**5,300,548**	

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 2020

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	459,769	D+E
2	Retained earnings	62,355	K
3	Accumulated other comprehensive income (and other reserves)	44,022	H+I+J
5	Common share capital issued by subsidiaries and held by third parties	13,768	M
6	Common Equity Tier 1 Capital before regulatory adjustments	579,914	
	Common Equity Tier 1 capital : regulatory adjustments		
8	Goodwill (net of related tax liability)	-	B
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	15,476	
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	5,924	
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	54	G
18	Deductions from Capital Base arising from Investments in FIs where ownership is > 10%	-	C
28	Total regulatory adjustments to Common Equity Tier 1	21,454	
29	**Common Equity Tier 1 capital (CET1)**	**558,460**	
	Additional Tier 1 capital : instruments		
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	-	
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)	78,015	L+N
36	Additional Tier 1 capital before regulatory adjustments	78,015	
	Additional Tier 1 capital : regulatory adjustments		
43	Total regulatory adjustments to Additional Tier 1 capital	-	
44	**Additional Tier 1 capital (AT1)**	**78,015**	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**636,475**	
	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)	3,503	O
50	General Provisions included in Tier 2 Capital	48,361	A
51	Tier 2 Capital before regulatory adjustments	51,864	
	Tier 2 Capital : regulatory adjustments		
57	Total regulatory adjustments to Tier 2 capital	-	
58	**Tier 2 Capital (T2)**	**51,864**	
59	**Total capital (TC = T1 + T2)**	**688,339**	

10. RECONCILIATION RFQUIREMENTS (CONTINUED)

Table 17

31 December 2019

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	445,349	D+E
2	Retained earnings	35,817	K
3	Accumulated other comprehensive income (and other reserves)	68,382	F+H+I+J
5	Common share capital issued by subsidiaries and held by third parties	-	
6	Common Equity Tier 1 Capital before regulatory adjustments	549,548	
	Common Equity Tier 1 capital : regulatory adjustments		
8	Goodwill (net of related tax liability)	2,704	B
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	-	
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	54	G
18	Deductions from Capital Base arising from Investments in FIs where ownership is > 10%	-	C
28	Total regulatory adjustments to Common Equity Tier 1	2,758	
29	**Common Equity Tier 1 capital (CET1)**	**546,790**	
	Additional Tier 1 capital : instruments		
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	-	
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)	75,616	L+M
36	Additional Tier 1 capital before regulatory adjustments	75,616	
	Additional Tier 1 capital : regulatory adjustments		
43	Total regulatory adjustments to Additional Tier 1 capital	-	
44	**Additional Tier 1 capital (AT1)**	**75,616**	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**622,406**	
	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)	40	N
50	General Provisions included in Tier 2 Capital	37,248	A
51	Tier 2 Capital before regulatory adjustments	37,288	
	Tier 2 Capital : regulatory adjustments		
57	Total regulatory adjustments to Tier 2 capital	-	
58	**Tier 2 Capital (T2)**	**37,288**	
59	**Total capital (TC = T1 + T2)**	**659,694**	

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:

	2020	2019
Table 18		
Tier 1 Capital (KD '000s)	**636,475**	622,406
Total Exposures (KD '000s)	**6,794,257**	5,575,567
Leverage Ratio (%)	**9.37%**	11.16%

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

	2020	2019
Table 19	**KD '000s**	KD '000s
On-balance sheet exposures	**6,437,150**	5,300,548
Exposures to Sharia compliant hedging contracts	**9,431**	12,354
Off-balance sheet items	**347,676**	262,665
Total Exposures	**6,794,257**	5,575,567

Table 26 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

	2020	2019
Table 20	**KD '000s**	KD '000s
Item		
Total consolidated assets as per published financial statements	**6,437,150**	5,300,548
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	**9,431**	12,354
Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	**347,676**	262,665
Other adjustments	**-**	-
Leverage ratio exposure	**6,794,257**	5,575,567

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 Group'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 at local level, including head office and its branches in 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 2020, was averaging at **KD 751 million** (post-haircut) against an average liquidity requirement of **KD 351 million**. Hence, the LCR averaged **213.83%** during the last quarter of 2020.

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 **74%** 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 2020 and 31 December 2020 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)		**751,293**
Cash Outflows			
2	Retail deposits and small business	**1,502,377**	**223,309**
3	· Stable deposits	11,197	560
4	· Less stable deposits	1,491,180	222,749
5	Deposit, investment accounts and unsecured wholesale funding excluding the deposits of small business customers:	**1,249,411**	**758,672**
6	· Operational deposits	-	-
7	· Non-operational deposits (other unsecured commitments)	1,249,411	758,672
8	Secured Funding		-
9	Other cash outflows, including:	**55,256**	**5,526**
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	55,256	5,526
13	Other contingent funding obligations	**1,243,059**	**62,153**
14	Other contractual cash outflows obligations	**125,953**	**125,953**
15	**Total Cash Outflows**		**1,175,612**
Cash Inflows			
16	Secured lending transactions	-	-
17	Inflows from the performing exposures (as per the counterparties)	**1,231,371**	**771,149**
18	Other cash Inflows	**53,119**	**53,119**
19	**Total Cash Inflows**	**1,284,490**	**824,268**
	LCR		**Total Adjusted Value [2]**
20	Total HQLA (after adjustments)		**751,293**
21	Net Cash Outflows		**351,344**
22	LCR		**213.83%**

* 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 2020 was **40 employees**, (31 December 2019: 38 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 2020 was **24 employees**, (31 December 2019: 24 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 2020 was **21 employees**, (31 December 2019: 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 (continued)

During the year, the Board Nomination and Remuneration Committee met **4 times**, (31 December 2019: 6 times).

The total remuneration paid to the Committee members was **Nil**, (31 December 2019: Nil).

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 2020 was **50 employees** and they represent **6.72%** of the total number of employees (31 December 2019: 47 employees representing 5.93% of the total number of employees).

The number of employees who received sign-on awards or guaranteed bonuses during 2020 was **Nil** (31 December 2019: Nil).

The total amount of end-of-service benefit paid during 2020 was **KD 225 thousand**; this is related to **5 employees** (31 December 2019: KD 284 thousand related to 6 employees).

The total amount of outstanding deferred remuneration as at 31 December 2020 was **KD 3,057 thousand** (31 December 2019: KD 2,559 thousand).

Total amount of deferred remuneration paid during 2020 was **KD 819 thousand** (31 December 2019: KD 617 thousand).

Total salaries & remuneration granted during reported period

Senior Management

	2020		2019	
	Unrestricted	**Deferred**	Unrestricted	Deferred
Table 22	**KD '000s**	**KD '000s**	KD '000s	KD '000s
Fixed remuneration:				
- Cash	**4,325**	**-**	3,944	-
- Others (refer note below)	**-**	**680**	-	645
Variable remuneration:				
- Cash	**685**	**-**	945	-
- DCC (Deferred cash payment)	**-**	**965**	-	899

Material Risk Takers*

	2020		2019	
	Unrestricted	**Deferred**	Unrestricted	Deferred
Table 23	**KD '000s**	**KD '000s**	KD '000s	KD '000s
Fixed remuneration:				
- Cash	**2,431**	**-**	2,281	-
- Others (refer note below)	**-**	**418**	-	384
Variable remuneration:				
- Cash	**400**	**-**	621	-
- DCC (Deferred cash payment)	**-**	**592**	-	610

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

Employees Category

	2020		2019	
Table 24	**Number of employees**	**Remuneration Fixed and Variable**	Number of employees	Remuneration Fixed and Variable
		KD '000s		KD '000s
Senior Management	**40**	**6,655**	38	6,433
Material Risk Takers*	**24**	**3,841**	24	3,896
Financial and Risk Control	**21**	**1,840**	18	1,720

* Material Risk Takers are identified as Senior Management

14. APPENDICES

14.1 Regulatory Capital Composition: Common Disclosure Template

Row Number	Item	2020 KD '000s	2019 KD '000s
	Common Equity Tier 1 Capital: instruments and reserves		
1	Directly issued qualifying common share capital plus related stock surplus	459,769	445,349
2	Retained earnings	62,355	35,817
3	Accumulated other comprehensive income (and other reserves)	44,022	68,382
5	Common share capital issued by subsidiaries and held by third parties	13,768	-
6	**Common Equity Tier 1 capital before regulatory adjustments**	**579,914**	**549,548**
	Common Equity Tier 1 Capital : regulatory adjustments		
8	Goodwill (net of related tax liability)	-	(2,704)
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	(15,477)	-
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	(5,924)	-
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	(54)	(54)
18	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)	-	-
28	**Total regulatory adjustments to Common Equity Tier 1**	(21,455)	(2,758)
29	**Common Equity Tier 1 Capital after the regulatory adjustments (CET1)**	**558,460**	**546,790**
	Additional Tier 1 Capital : instruments		
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	75,388	75,388
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)	2,627	228
36	**Additional Tier 1 Capital before regulatory adjustments**	**78,015**	**75,616**
	Additional Tier 1 Capital : regulatory adjustments		
43	**Total regulatory adjustments to Additional Tier 1 capital**	-	-
44	**Additional Tier 1 capital (AT1)**	**78,015**	**75,616**
45	**Tier 1 Capital (T1 = CET1 + AT1)**	**636,475**	**622,406**
	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)	3,503	40
50	General Provisions included in Tier 2 Capital	48,361	37,248
51	**Tier 2 capital before regulatory adjustments**	**51,864**	**37,288**
	Tier 2 Capital: regulatory adjustments		
57	**Total regulatory adjustments to Tier 2 Capital**	-	-
58	**Tier 2 Capital (T2)**	**51,864**	**37,288**
59	**Total Capital (TC = T1 + T2)**	**688,339**	**659,694**
60	Total risk-weighted assets	**4,083,632**	**3,246,032**
	Capital ratios and buffers		
61	Common Equity Tier 1 (as percentage of risk-weighted assets)	**13.68%**	**16.84%**
62	Tier 1 (as percentage of risk-weighted assets)	**15.59%**	**19.17%**
63	Total capital (as percentage of risk-weighted assets)	**16.86%**	**20.32%**
	National minima		
69	Common Equity Tier 1 minimum ratio including Capital Conservation buffer and D-SIB buffer	**10.00%**	10.00%
70	Tier 1 minimum ratio	**11.50%**	11.50%
71	Total capital minimum ratio excluding CCY	**13.50%**	13.50%

14. APPENDICES (CONTINUED)

14.2 Leverage Ratio: Common Disclosure Template

	Item	2020 KD '000s	2019 KD '000s
	On-balance sheet exposures		
1	On-balance sheet items (excluding Sharia compliant hedging contracts, but including collaterals)	6,437,150	5,300,548
2	(Asset amounts deducted in determining Basel III Tier 1 Capital)	-	-
3	**Total on-balance sheet exposures (excluding Sharia compliant hedging contracts) (sum of lines 1 and 2)**	**6,437,150**	**5,300,548**
	Exposures to Sharia compliant hedging contracts		
4	Replacement cost associated with all Sharia compliant hedging contracts (i.e. net of eligible cash variation margin)	3,684	6,545
5	Add-on amounts for potential future exposures " PFE" associated with all Sharia compliant hedging contracts	5,747	5,809
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)**	**9,431**	**12,354**
	Other off-balance sheet exposures		
10	Off-balance sheet exposure (before any adjustment for credit conversion factors)	1,416,421	1,430,815
11	(Adjustments for conversion to credit equivalent amounts)	(1,068,745)	(1,168,151)
12	**Off-balance sheet items (sum of lines 10 and 11)**	**347,676**	**262,664**
	Capital and total exposures		
13	**Tier 1 Capital**	**636,475**	**622,406**
14	**Total exposures (sum of lines 3, 9,12)**	**6,794,257**	**5,575,567**
	Leverage ratio		
15	**Leverage ratio (Tier 1 Capital (13)/total exposures (14))**	**9.37%**	**11.16%**

14. APPENDICES (CONTINUED)

14.3 Regulatory Capital: Main Features Template

	Disclosure template for main features of regulatory capital instruments	
1	Issuer	Boubyan Tier 1 Capital SPC Limited
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	ISIN: XS1407089926
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 250 million (KWD 75.388 million)
8	Par value of instrument	USD 1,000/-
9	Accounting classification	Perpetual Tier 1 Sukuk – under Equity
10	Original date of issuance	16 May 2016
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: 16 May 2021
15	Subsequent call dates, if applicable	On the First Call Date 16 May 2021 or on any Periodic Distribution Date thereafter (16 May and 16 November every year)
	Coupons/ dividends	
16	Fixed or floating dividend/coupon	Fixed
17	Coupon rate and any related index	6.75%
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 Shari'a Supervisory Board and External Sharia Auditor's Report

Report of Shari'a Supervisory Board

Date: 16 Jumada al-Ula 1442 A.H.
Corresponding to: December 31st 2020

In the Nam of Allah, Most Gracious, Most Merciful

Report of the Sharia Supervisory Board
From 01.01.2020 to 31.12.2020

To the Shareholders of Boubyan Bank

Praise be to Allah, the Almighty, and Peace and Blessings be upon our Prophet Muhammad, his Folk, and Companions All.

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 these duties, we hereby provide you with the following report:

The Sharia Supervisory Board held 12 meetings, and below is the attendance record for the members of the Sharia Supervisory Board:

Name
1- Sheikh Dr. Abdulaziz Khalifa Al-Qasar
No. of Meetings 12
2- Sheikh Dr. Esame Khalaf Al-Enezi
No. of Meetings 12
3- Sheikh Dr. Mohammed Awad Al-Fuzaie
No. of Meetings 12
4- Sheikh Dr. Ali Ibrahim Al-Rashid
No. of Meetings 12

These meetings issued (57) Sharia-related resolutions, covering contracts and various Sharia-related inquiries.

We, at the Sharia Supervisory Board of Boubyan Bank, have monitored and reviewed the principles adopted and the contracts pertinent to the transactions of the Bank for the period from 01/01/2020 to 31/12/2020. 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 Fatwa, resolutions, principles and guidelines previously issued or set by the Board. The management of the Bank is entrusted with the implementation of such rulings, principles and Fatwa while the Board's responsibility is limited to expressing an independent opinion in light of the transactions submitted and presented thereto.

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. In our opinion, Boubyan Bank's contracts, documents and operations during the period from 1-1-2020 to 31-12-2020, presented to us, have been concluded as per the rulings and principles of the Noble Islamic Sharia. 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.

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 Peace be with you.

Peace and blessings be upon our Prophet, Muhammad, his Folk and Companions All,
and Praise Be to Allah, the Lord of the Worlds.

Sheikh Dr. Abdulaziz Khalifa Al-Qasar

Sheikh Dr. Esame Khalaf Al-Enezi

Sheikh Dr. Ali Ibrahim Al-Rashid

Sheikh Dr. Mohammed Awad Al-Fuzaie

External Sharia Auditor's Report

Al Mashora & Al Raya for Islamic Financial Consulting

To: The Shareholders of Boubyan Bank
Peace and blessings be upon you!

Report of Boubyan Bank's External Sharia Auditor
for the Financial Year Ended December 31st 2020

External Sharia Auditor's Responsibility

As per our engagement letter, the External Sharia Auditing Firm shall be responsible for monitoring and auditing all transactions and dealings to verify the extent of Boubyan Bank's compliance with the principles of the Noble Islamic Sharia in line with the resolutions and Fatwas of the Sharia Supervisory Board.

Boubyan Bank's Responsibility

The bank is responsible for ensuring compliance with the principles of the Noble Islamic Sharia in line with the resolutions and Fatwas of the Sharia Supervisory Board, and for providing all the information necessary for performing the external Sharia audit on all transactions and dealings.

Procedures & Findings of the External Sharia Audit

We have reviewed the meetings' minutes and the reports of the Sharia Supervisory Board as well as the plans and reports of the Internal Sharia Audit Department in addition to reviewing the Sharia-related approvals of the policies and procedures' manuals, as amended, for all the bank's departments.

Moreover, we have inspected and reviewed the investments, contracts, banking & commercial transactions and the products of the same as well as the phases of implementation for the same, and verified that the competent bodies at the bank have performed such transactions in line with the resolutions and Fatwas of the Sharia Supervisory Board.

Field Visits & Findings

We communicated with the bank's executive departments through meetings, conference calls, video calls and emails due to the country's ongoing circumstances and in compliance with the health precautionary measures associated with the Covid-19 pandemic. We have noted down the findings of these meetings as 15 meetings were held via conference or video calls.

Final Independent Opinion of the External Sharia Auditor

We believe that the audit work we have made for the bank's business covering the period from 01.01.2020 to 31.12.2020 provides a reasonable basis to express our independent opinion. As per the information, explanations, clarifications and assurances we have obtained that we deem necessary to provide us with sufficient evidence to give reasonable assurance that the executive departments at the bank have complied with the resolutions and Fatwas of the Sharia Supervisory Board, and in light of the above, the external Sharia audit firm has concluded that Boubyan Bank has complied with the rulings and principles of the Noble Islamic Sharia as per the resolutions and Fatwas of the Sharia Supervisory Board.

External Sharia Auditor
Dr. Abdulaziz Khalaf Jarallah

Consolidated Financial Statements and Independent Auditors' Report

for the year ended 31 December 2020

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

Report on the Audit of the Consolidated Financial Statements

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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

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

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

Key Audit Matters (continued)

We have identified the following key audit matter:

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

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

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

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

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

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

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

Key Audit Matters (continued)

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

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

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

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

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

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

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

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

26 January 2021
Kuwait

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2020

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

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

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

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

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

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

بنك بوبيان
Boubyan Bank

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

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

Abdulaziz Abdullah Dakheel Al-Shaya
Chairman

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

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

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

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the year ended 31 December 2020

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

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

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

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

1. INCORPORATION AND ACTIVITIES

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

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

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

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

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

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

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

2. BASIS OF PREPARATION

2.1 Statement of compliance

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

(a) Expected credit loss ("ECL") to be measured at the higher of ECL on credit facilities computed under IFRS 9 in accordance to the CBK guidelines or the provisions as required by CBK instructions along with its consequent impact on related disclosures; and
(b) Recognition of modification losses on financial assets arising from payment holidays to customers in response to Covid-19 to be recognised in retained earnings instead of consolidated statement of profit or loss as required by IFRS 9 (note 35).

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

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

2.2 Basis of measurement

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

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

2.3 Functional and presentation currency

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

2.4 Changes in accounting policies and disclosures

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

2. BASIS OF PREPARATION (CONTINUED)

2.4 Changes in accounting policies and disclosures (continued)

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

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

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

Amendments to IAS 1 and IAS 8: Definition of Material

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

Amendments to IFRS 3: Definition of a Business

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

Amendments to IFRS 16: Covid-19 Related Rent Concessions

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

Conceptual Framework for Financial Reporting issued on 29 March 2018

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

2.5 New standards and interpretations not yet adopted

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

Profit Rate Benchmark Reform (Phase 2)

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

2. BASIS OF PREPARATION (CONTINUED)

2.5 New standards and interpretations not yet adopted (continued)

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

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

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Basis of consolidation

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

3.1.1 Business combinations

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Basis of consolidation (continued)

3.1.1 Business combinations (continued)

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

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

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

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

3.1.2 Non-controlling interests

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

3.1.3 Subsidiaries

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

3.1.4 Loss of control

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Basis of consolidation (continued)

3.1.5 Investments in associates (equity-accounted investees)

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

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

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

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

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

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

3.1.6 Transactions eliminated on consolidation

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

3.2 Foreign currency

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

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

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

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

3.3 Revenue recognition

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Government grants

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

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

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

3.5 Financial instruments

3.5.1 Financial assets

a) Trade and settlement date accounting

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

b) Recognition and derecognition of financial assets

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (continued)

3.5.1 Financial assets (continued)

c) Classification and Measurement of Financial assets

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

Cash and cash equivalents

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

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

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

Murabaha

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

Wakala

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

Leased assets - the Group as a lessor

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

Renegotiated finance facilities

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

Financial assets at FVTPL and FVOCI

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

Business model assessment

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (continued)

3.5.1 Financial assets (continued)

c) Classification and Measurement of Financial assets (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (continued)

3.5.1 Financial assets (continued)

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

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

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

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

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

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

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

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

Equity investments are not subject to Expected Credit Losses.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (continued)

3.5.1 Financial assets (continued)

d) Impairment of financial assets (continued)

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

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (continued)

3.5.1 Financial assets (continued)

d) Impairment of financial assets (continued)

Expected Credit Losses (continued)

Measurement of ECLs

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

Incorporation of forward-looking information

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

Modification of Islamic financing to customers

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

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

Write off

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

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

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

Provision for credit losses in accordance with CBK instructions

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (continued)

3.5.1 Financial assets (continued)

d) Impairment of financial assets (continued)

Expected Credit Losses (continued)

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

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

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

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

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

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

3.5.2 Financial liabilities

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

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

Due to banks and depositors' accounts

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

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

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

Saving Investment Accounts

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

Fixed-Term Deposit Investment Accounts

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

Open –Term Deposit Investment Accounts

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

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

Medium term financing

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (continued)

3.5.3 Offsetting

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

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

3.6 Fair values

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

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

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

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

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

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

3.7 Derivatives

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

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

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

3.8 Investment properties

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9 Property and equipment

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

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

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

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

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

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

3.10 Leases – Group as a lessee

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

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

a) Right-of-use assets

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

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

b) Lease liabilities

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

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

3.11 Impairment of non- financial assets

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.11 Impairment of non- financial assets (continued)

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

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

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

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

3.12 Provisions

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

3.13 Contingent liabilities and contingent assets

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

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

3.14 Share based payment

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

3.15 Segment reporting

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

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

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

3.16 Treasury shares

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.16 Treasury shares (continued)

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

3.17 Post-employment benefits

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

3.18 Kuwait Foundation for the Advancement of Sciences (KFAS)

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

3.19 National Labour Support Tax (NLST)

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

3.20 Zakat

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

3.21 Financial guarantees

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

3.22 Fiduciary assets

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

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

4.1 Critical judgments in applying the Group's accounting policies

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

Fair value hierarchy

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

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

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

Classification of financial assets

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

4.2 Key sources of estimation uncertainty

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

Expected Credit Losses on financial assets

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

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

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

Impairment losses on Islamic finance facilities

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

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

Valuation of unquoted equity investments

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

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

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

Fair values of asset and liabilities including intangibles

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

5. BUSINESS COMBINATION

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

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

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

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

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

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

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

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

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

6. MURABAHA AND OTHER ISLAMIC FINANCING INCOME

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

7. NET INVESTMENT INCOME

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

8. NET FEES AND COMMISSION INCOME

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

9. PROVISION FOR IMPAIRMENT

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

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

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

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

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

9. PROVISION FOR IMPAIRMENT (continued)

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

10. TAXATION

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

11. BASIC AND DILUTED EARNING PER SHARE

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

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

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

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

12. CASH AND CASH EQUIVALENTS

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

13. DEPOSITS WITH OTHER BANKS

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

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

14. ISLAMIC FINANCING TO CUSTOMERS

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

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

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

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

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

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

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

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

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

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

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

15. INVESTMENT SECURITIES

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

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

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

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

16. SUBSIDIARIES

16.1 Details of principal operating subsidiaries are as follows:

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

16.2 Material partly-owned subsidiary

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

Proportion of equity interest held by non-controlling interests:

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

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

16. SUBSIDIARIES (continued)

16.2 Material partly-owned subsidiary (continued)

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

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

Summarised consolidated statement of financial position as at:

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

Summarised consolidated statement of cash flows for year ended:

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

17. INVESTMENTS IN ASSOCIATES

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

18. INVESTMENT PROPERTIES

The movement in the investment properties is as follows:

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

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

19. OTHER ASSETS

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

20. MEDIUM TERM FINANCING

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

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

21. OTHER LIABILITIES

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

Post-Employment Benefit

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

22. SHARE CAPITAL

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

23. SHARE PREMIUM

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

24. DIVIDEND

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

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

25. TREASURY SHARES

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

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

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

26. STATUTORY RESERVE

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

27. OTHER RESERVES

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

27. OTHER RESERVES (continued)

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

Voluntary reserve

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

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

28. PERPETUAL TIER 1 SUKUK

During 2016, the Bank, issued "Tier 1 Sukuk", through a Sharia's compliant Sukuk arrangement amounting to USD 250 million. Tier 1 Sukuk is a perpetual security in respect of which there is no fixed redemption date and constitutes direct, unsecured, subordinated obligations (senior only to share capital) of the Bank subject to the terms and conditions of the Mudaraba Agreement. The Tier 1 Sukuk is listed on the Irish Stock Exchange and NASDAQ Dubai and callable by the Bank after five-year period ending May 2021 (the "First Call Date") or any profit payment date thereafter subject to certain redemption conditions.

The net proceeds of Tier 1 Sukuk are invested by way of Mudaraba with the Bank (as Mudareb) on an unrestricted co-mingling basis, by the Bank in its general business activities carried out through the general Mudaraba pool. Tier 1 Sukuk bears an expected profit rate of 6.75% per annum to be paid semi-annually in arrears until the First Call Date. After that, the expected profit rate will be reset based on then prevailing 5 years U.S Mid Swap Rate plus initial margin of 5.588% per annum. Mudaraba profit will not be accumulated and the event is not considered an event of default.

29. RELATED PARTY TRANSACTIONS

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

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

29. RELATED PARTY TRANSACTIONS (continued)

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

Compensation of key management personnel:

Details of compensation for key management comprise the following:

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

30. CONTINGENCIES AND COMMITMENTS

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

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

31. SEGMENT REPORTING

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

Business Segments

For management purposes, the Bank is organized into the following four major business segments:

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

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

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

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

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

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

31. SEGMENT REPORTING (continued)

Geographical segment

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

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

32. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

32.1 Introduction and overview

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

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

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

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

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

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

32.2 Credit risk

32.2.1 Assessment of expected credit losses

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

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

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

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

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

32. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

32.2 Credit risk *(continued)*

32.2.1 Assessment of expected credit losses *(continued)*

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

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

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

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

The Group has also considered the potential impact of the uncertainties caused by the Covid-19 pandemic together with the associated economic support and relief measures of governments and central banks in its estimation of ECL requirements for the year ended 31 December 2020.

Significant increase in credit risk

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

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

Measurement of ECLs

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

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

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

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

32. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

32.2 Credit risk (continued)

32.2.1 Assessment of expected credit losses (continued)

Incorporation of forward-looking information

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

Internal rating and PD estimation process

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

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

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

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

Exposure at default

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

32. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

32.2.1 Assessment of expected credit losses *(continued)*

Loss given default

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

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

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

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

Collateral and other credit enhancements

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

32.2.3 Risk Concentration of the maximum exposure to credit risk

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

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

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

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

32. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

32.2 Credit risk (continued)

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

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

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

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

32.2.4 Credit quality per class of financial assets

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

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

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

32. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

32.2 Credit risk (continued)

32.2.4 Credit quality per class of financial assets (continued)

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

Ageing analysis of past due or impaired financial assets:

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

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

32.3 Market risk

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

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

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

32. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

32.4 Foreign currency risk

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

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

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

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

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

Equity price risk

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

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

32.5 Liquidity risk

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

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

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

32. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

32.5 Liquidity risk (continued)

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

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

32. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

32.5 Liquidity risk (continued)

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

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

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

32.6 Profit Rate Risk

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

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

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

32.7 Operational risk

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

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

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

32. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

32.8 Fair value of financial instruments

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

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

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

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

	Level 1	**Level 2**	**Level 3**	**Total**
2020	**KD'000's**	**KD'000's**	**KD'000's**	**KD'000's**
Financial assets at fair value through profit or loss	**-**	**81,691**	**-**	**81,691**
Investment in Sukuk	**523,046**	**-**	**-**	**523,046**
Financial assets at fair value through other comprehensive income	**2,010**	**-**	**15,408**	**17,418**
	525,056	**81,691**	**15,408**	**622,155**
2019				
Financial assets at fair value through profit or loss	-	80,440	-	80,440
Investment in Sukuk	306,315	-	-	306,315
Financial assets at fair value through other comprehensive income	151	-	20,624	20,775
	306,466	80,440	20,624	407,530

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

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

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

32. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

32.8 Fair value of financial instruments (continued)

Fair value hierarchy (continued)

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

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

32.9 Capital management

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

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

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

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

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

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

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

33. DERIVATIVES

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

Currency swaps

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

Profit rate swaps

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

Forward foreign exchange contracts

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

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

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

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

34. FIDUCIARY ASSETS

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

35. IMPACT OF COVID-19

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

Covid-19 support measures

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

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

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

Deferral of instalments for Consumer and Housing finance, credit cards and facilities to SMEs

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

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

Expected Credit Loss (ECL) estimates

The Group considered the potential impact of the uncertainties caused by the Covid-19 pandemic together with the associated economic support and relief measures of governments and central banks in its estimation of ECL requirements for the year ended 31 December 2020.

Significant increase in credit risk

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

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

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

35. IMPACT OF COVID-19 (CONTINUED)

Macro-economic factors

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

Notwithstanding the above, the ECL requirement for credit facilities estimated as at 31 December 2020 continues to be lower than the provisions required as per CBK instructions. In accordance with Group accounting policy, the higher amount, being the provision required as per CBK instructions, is therefore recognized as the provision requirement for credit losses on credit facilities.

Other impacts

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