بنك بوبيان
Boubyan Bank

Annual Report

2019

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

Contents

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

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

H.H. Sheikh
Sabah Khaled Al-Hamad Al-Sabah
Prime Minister

Board of Directors

Mahmoud Yousef Al-Fulaij
Chairman

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

Abdulaziz Abdullah Al-Shaya
Board Member

Adnan Abdullah Al-Othman
Board Member

Hazim Ali Al-Mutairi
Board Member

Mohamed Yousef Al-Saqer
Board Member

Waleed Mishari Al-Hamad
Board Member

Waleed Ibrahim Al-Asfour
Board Member

Waleed Abdullah Al-Houti
Board Member

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

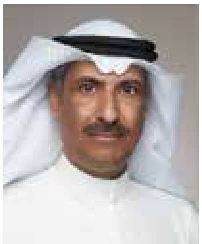
Executive Management

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

Abdullah Abdul Kareem Al-Tuwaijri
Deputy Chief Executive Officer

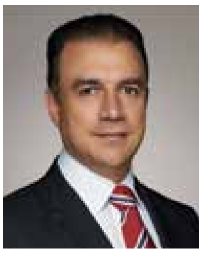
Abdul-Salam Mohammed Al-Saleh
Deputy Chief Executive Officer

Waleed Khalid Al-Yaqout
Group General Manager
Administration Group

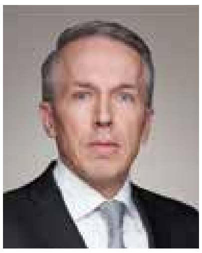


Adel Abdullah Al-Hammad
Group General Manager
Human Resources Group

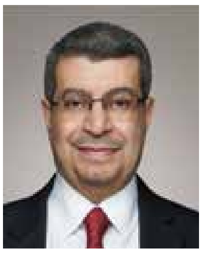
Abdullah Ahmed Al-Mehri
Chief Operations Officer



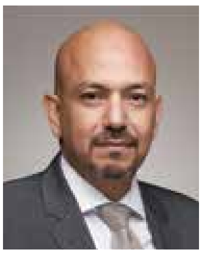
Ashraf Abdallah Sewilam
Group General Manager
Corporate Banking Group



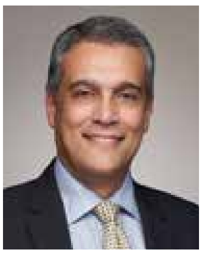
Neven Raic
Group General Manager
Consumer Banking Group



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

By the Grace of Allah, the Almighty, Boubyan Bank successfully maintained the steady growth, and remarkable financial and operational achievements during 2019 in line with the business plan and strategic vision, along with paving the ground for the new phase of Boubyan business models in digital banking in the local market, and the expansion internationally.

Therefor, I am pleased to present the Annual Report of Boubyan Bank for year 2019 on behalf of the Board of Directors and the Executive Management of Boubyan Bank, which encompasses the financial statements and a highlight of the Bank's activities and numerous accomplishments during the year.

Remarkable Financial Achievements

Boubyan Bank has maintained the growth momentum in earnings, with a net profit growth at a rate of 12% in 2019. The net profit of the Bank amounted to KD 62.6 million compared to KD 56.1 million in 2018, with earnings per share of 20.4 Fils compared to 19.2 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 driven further by the innovation and creativity, which are rooted in our business strategies.

Most of the Bank's indicators witnessed a growth during 2019 where total assets increased to approximately KD 5.3 billion at a growth rate of 22%, and operational revenues increased to reach KD 145.8 million with a growth rate of 4% in addition to the increase in customer deposits by 17% to reach KD 4.35 billion.

Furthermore, the total equity of the Bank increased to KD 575 million from KD 408 million last year, along with an increase in the financing portfolio to reach KD 3.73 billion at a growth rate of 14% in line with the steady growth of the Bank's customer base.

Based on the financial performance of the year ended December 31, 2019, the Board of Directors proposed a distribution of cash dividends of 9% per nominal share value (9 Fils per share) and 5% in bonus shares (5 shares for each 100 shares). Furthermore, the Board of Directors proposed a board remuneration of KD 450 thousand for 2019 compared to KD 360 thousand for the previous year.

With regard to the market share, our share in local finance increased to reach approximately 9.31% compared to 8.57% by the end of previous year, while the share of the retail finance increased to exceed 13%.

The Third Five-Year Strategy

The Bank's third five-year strategy is currently underway – "Boubyan 2023" which builds on the Group's robust domestic foundations while strengthening its international presence to sustain growth by moving into "steady-state" growth thereby building on the business platform established since 2010. The Bank's short-term strategy is to:

- Continue innovating its product service offering to enhance customer experience.
- Maximize operational efficiency.
- Become an Islamic banking leader in Kuwait.

The Bank's long-term strategy aims to expand its core business by growing its market share across various segments and products while continuing to introduce innovative channels and developing wealth management and new digital banking platforms.

Solid Capital Base

In line with our capital management plan to maintain solid capital base, we successfully completed in May 2019 the capital increase by 15% through the right issuance of approximately 376 million new shares. This issuance was well received by our shareholders as evidenced in the heavy oversubscriptions reaching more than 522% of issued shares. As of 31 December 2019, the capital adequacy ratio of Boubyan Bank reached 20.3%.

Supreme Retail Banking Services

While we celebrated our 15th year, we have achieved during this year significant milestones in our stride to perfection. Guided by the Boubyan Bank's natural DNA, our creativity, 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 to our customers.

Pioneer in Customer Satisfaction

In our relentless focus on customer services, to excel in every product digital or traditional, the customers rewarded our efforts by voting us the best bank in customer service. Boubyan Bank won the First Place Award in Customer Service Country Winner for the 4th year in a row in addition to the Best Islamic Bank in Customer Service Award for the 9th year in a row from Service Hero. These results reflect our primary commitment to customer service, which remains our utmost competitive advantage and our most key performance measure.

Leadership in Innovation & Creativity

During this year, we have launched a new version of our mobile banking application, containing state of the art technology for the safety and convenience of our customers. The new mobile banking application offers a much more advanced customer experience with friendly interface. We have also sharpened our innovation efforts, adopting 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.

Such new products include, but they not limited to:

- First digital virtual credit card with 'Tap' payment for android phone users, with full digital journey from application till card activation, within few clicks, where eligible customers can create their new cards within one minute.
- First digital end-to-end requests for credit cards and delivery through ATMs/ITMs as another service that allows our customers to issue new cards from their mobile phones and receive an actual card through our ATMs/ITMs at any time of their convenience, without referring to their branch or being limited with operating hours.
- First metal card with contactless feature, a new card that represents evolution in card design and functionality.
- Extending Kuwait's first Chatbot (Msa3ed, launched in 2018) to the popularly used "Whatsapp" application for quick customer enquiries.

Chairman's Message

We have implemented Robotic Process Automation technology to increase efficiency and develop a 'Fin-tech ready' information systems and capabilities. The meticulously planned and exceptionally executed efforts were recognized with numerous awards that marked another milestone in Boubyan's journey of success. In 2019, Boubyan Bank won from Global Finance the "Best Islamic Digital Bank" Award in Middle East and Kuwait, and the "Best Innovative Digital Bank" Award in the world.

Active Expansion

Being available, near and ready to serve our customers remains our top priority. We have further strengthened our customer contact to ensure we win every touch point with our customer, every day. We added new branches to reach 43 branches serving our customers across the country. Understanding our customers need for banking services, we have extended our working hours across 3 branches which now operate on extended hours during weekends. We have also expanded our Boubyan Direct network to 38 locations, with Face-to-Face staff service available 24/7 to address any of our customers banking services. Furthermore, our network of 227 ATMs is well distributed for all regular services in addition to issuing new cards and to ensure convenience and accessibility to our customers.

Distinguished Corporate Banking Services

Boubyan Bank aspires to scale-up the client experience and provide exceptional customer services through innovative products and services for corporate customers, which is driven by our client essentials and requirements to develop and enhance unique services and products in Corporate Market in line with the noble Islamic Sharia.

The Corporate Banking Group is consistently growing its financing portfolio with an average annual growth by 15% over the past three years, despite the significant competition in the Kuwaiti Market, where we achieved onboarding primary clients on a selective basis according to their commercial credentials.

The Corporate Banking Group maintained and enhanced the portfolio quality by focusing more on active sectors within the market, such as services, oil, and trading, along with adopting the best practices in banking risk management, which has improved its market share to reach 8.1%. This has resulted primarily from adopting a new market strategy, which focuses more on main sectors.

The Corporate Banking Group strives toward improving its offerings and exemplifying Boubyan's vision of being an innovative bank. This vision is evident in adopting strategic initiatives and projects that will holistically transform the corporate client's experience and will be a driving force in acquiring and sustaining new clients.

In light of the dynamic changes, where technology/digitalization replaces the usual/traditional way of conducting business, the Corporate Banking Group continues to explore and embrace the latest technology to provide convenient solutions for the client and to fulfill their needs, including:

- Revamped the Corporate mobile banking Application and enhanced the Internet Banking platform by introducing more features/services.
- Enhanced the client transaction experience.
- Launched new/upgraded products and services.

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 expansion of its services and branches.

This has made our Bank an attractive choice to the Kuwaiti youths 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.

Accordingly, the Bank managed to maintain the ratio of national manpower to reach 77.8%. 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 Sharia, 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.

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. There were more than 150 events and activities organized or sponsored by the Boubyan Bank in addition to 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 Sharia. 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. Hence, we are currently in process of implementing an action plan to adhere with the latest CBK governance updates, which requires election of Independent Board Directors by 2020.

Chairman's Message

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 Sharia 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 Sabah Al-Ahmad Al-Jaber Al-Sabah, may Allah protect him as well as to H.H., the Crown Prince, Sheikh Nawwaf Al-Ahmad Al-Jaber Al-Sabah, and H.H the Prime Minister, Sheikh Sabah Khaled Al-Hamad Al-Sabah, may Allah protect them all.

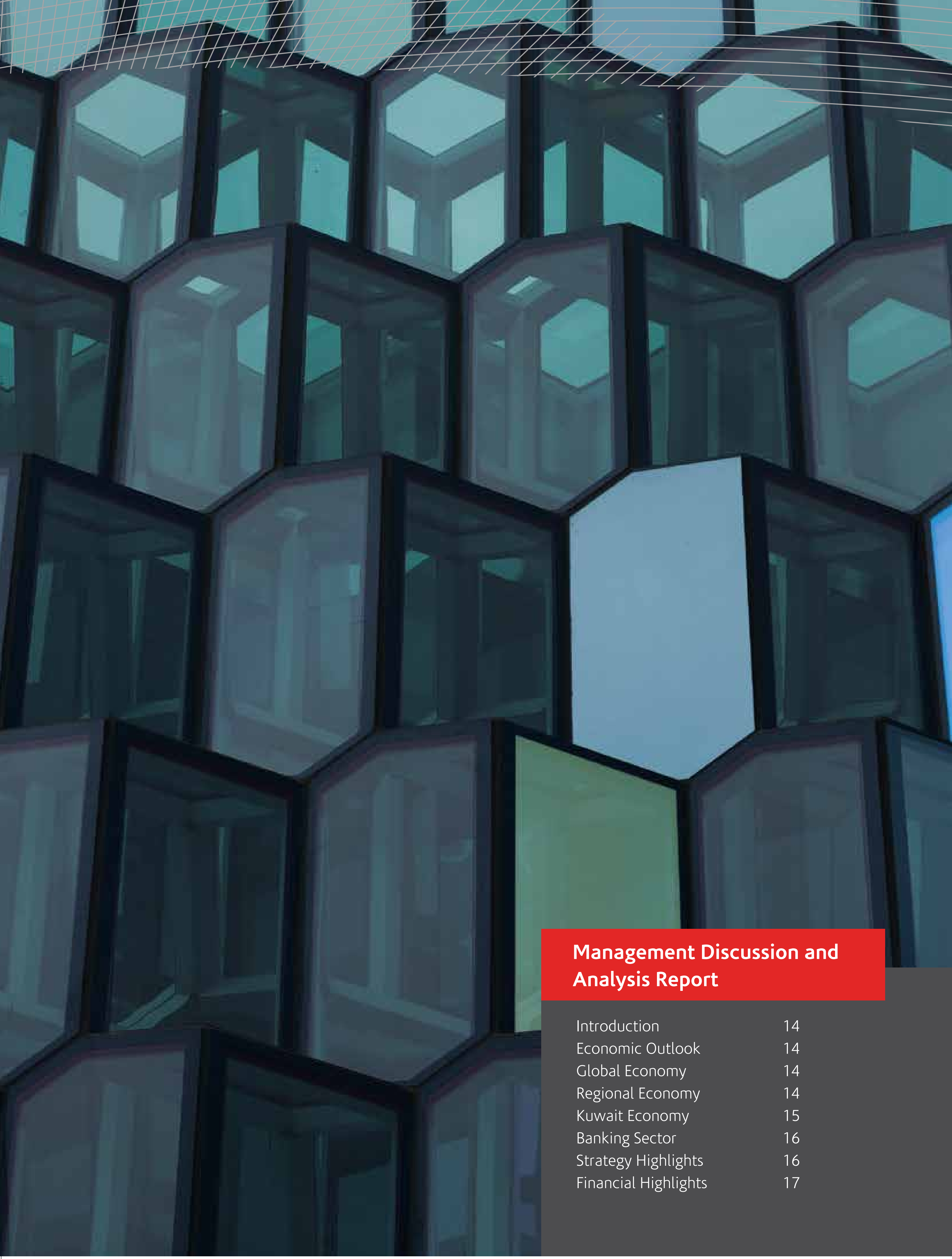
Moreover, I would like to express the deepest thanks to the executives of the Central Bank of Kuwait, headed by H.E., the Governor, Dr. Mohammed Al-Hashel, who spared no effort to take the actions deemed appropriate to develop and safeguard the Kuwaiti banking system.

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 Sharia 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 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!

Mahmoud Yousef Al-Fulaij
Chairman



Management Discussion and Analysis Report

Management Discussion and Analysis Report

Introduction

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

Economic Outlook

Global Economy

Global real GDP growth in 2019 is forecasted to grow at 2.9 percent in 2019 and is expected to increase to 3.3 percent in 2020 according to IMF report. Low policy rates and reduced trade tension will likely support the global economy over the next two years and nurture steady but modest growth.

The US economy growth decelerated in 2019 amid slowing investments and exports. Growth is expected to further slowdown in 2020. However, additional progress in US-China trade negotiations that leads to a further reduction in trade policy uncertainty could result in higher-than-expected US growth. Despite of lower growth, unemployment rate was historically low with solid wage growth fueling consumption.

After three rate hikes in 2017 and four hikes in 2018, the Federal Reserve cut its policy rates three times by 25 bps each since mid-2019 due to concerns over global outlook and persistent low inflation target rate. The indication is that the Fed will keep policy rates low for a foreseeable future.

Economic activity in the Eurozone deteriorated in 2019 owing to weaker trade and manufacturing activities. Economic growth in the Euro area is estimated at 1.1 percent in 2019 and is expected to reduce to 1.0 percent in 2020 and is forecasted to go up to 1.3 percent in 2021-2022 according to World Bank estimates. Similarly the outcome of the post-Brexit trade negotiations between the United Kingdom and European Union will also have an impact on the Eurozone growth.

Economic activity is expected to taper down in the Asian economies in 2019 and to further weaken due to lower manufacturing and exports alongside declining consumer confidence. Both China's and Japan's economy are forecasted to decelerate in 2020.

Overall, the global market outlook is weighed down due to Europe, China and the emerging markets though the US economy is holding on. However, the growth can edge up further if the prolonged trade dispute softens there by reducing uncertainty leading to increase in international trade, confidence and investments.

Regional Economy

Fiscal expansion is forecasted to continue in the GCC in 2020 based on IMF's estimates. For the region, budget deficit is forecasted to increase in 2020, as per IMF data. The higher deficit in 2020 despite sequentially lower budget expenditure in the region, is mainly ascribed to lower revenues in 2020, from lower oil output following the deeper cuts. Nevertheless, GCC governments continue to focus on expenditure efficiencies and improving their management of fiscal risks. The drop-in oil production is expected to drive lower current account surplus for the GCC in 2020, as the region's current account surplus is expected to come in at around 3.3% of GDP as per IMF.

Based on published research H1-19 GDP figures do exhibit improvements in non-oil GDP growth in Saudi Arabia, UAE and Kuwait on a y-o-y basis.

Further policy rates are expected to remain accommodative in the GCC, as GCC currencies are either pegged or loosely pegged to the USD.

Oil prices averaged US $61 per barrel in 2019 which was 10 percent lower than the 2018 average. Prices were supported by production cuts by OPEC and its partners. World Bank estimates oil prices to decline slightly to an average of US $59 per barrel in 2020 and 2021 resulting from increase in U.S. supply and lower global growth. As a result, fiscal deficits are expected to further increase in the near-term across the region.

Non-oil sector activity in the GCC grew in 2019 and is expected further increase in 2020. The IPOs of state-owned Saudi Aramco, Boursa Kuwait and Shamal Az-Zour further reiterates focus towards pushing diversification initiatives. However oil market stability will remain necessary for securing more progress for the region's diversification efforts and further non-oil economic growth.

Rate decreases within the GCC were more differentiated with central banks using different tools in response to US rate cuts. Kuwait's central bank cut its discount rate in October 2019 to 2.75 percent from 3.0 percent. Credit and monetary indicators such as the money supply, credit lending to various sectors, and inflation trends across the GCC remained largely mixed in 2019. The economic growth of each of the GCC countries will depend on its set of macroeconomic and political challenges and growth opportunities.

Kuwait Economy

Kuwait has an exceptionally strong external balance sheet and is expected to remain strong over the next two years, primarily underpinned by high levels of accumulated fiscal and external buffers. This should partly offset risks related to Kuwait's undiversified oil-dependent economy. Non-oil GDP growth in Kuwait is projected to reach 2.5% in 2020 based on published information.

Kuwait has been more resilient than most Gulf Cooperation Council (GCC) states to the decrease in the oil price due to low production costs and a low break-even oil price.

Research analysts expect real GDP growth of 0.5% in 2019 and the same trend to continue in 2020. The Ministry of Finance announced the State of Kuwait's budget for the coming fiscal year 2020-2021, with 14.8 billion in revenue (-6.5 percent change), 22.5 billion in expenditure, and a deficit of KD 9.2 billion (+11.2 percent change) after accounting for the transfer of 10 percent of all revenue to the State's Future Generations Fund (FGF) as mandated by law. Capital expenditure is maintained at 16% which is approximately KD 3.6 billion. Non-oil revenue is expected to be 13% of the total revenues. Government spending, stable oil prices and lower inflation should boost retail trade and business confidence in 2020. Infrastructure spending should also support lending growth, both directly and through its effect on the broader private sector in 2020. Land grants under the government's housing program will continue to support residential construction.

Corporate credit growth is expected to remain robust backed by government commitment to the development plan which is part of Kuwait Vision 2035. The pipeline of scheduled project awards is healthy. Monetary policy will stay supportive with a low policy rate environment which should also benefit growth in 2020. The consumer sector appears to be growing with improved access to credit for consumers and lower inflationary pressures which will support consumer purchasing power over the coming year.

The real estate market was more or less steady in 2019. Kuwaiti stocks performed relatively well in 2019 compared to regional and global stock market level. The inclusion of Boursa Kuwait in the MSCI Emerging Market index in May 2020 is expected to have passive inflows of around US 3 Billion.

Management Discussion and Analysis Report

Banking Sector

The Kuwaiti banking sector is comprised of 23 banks, including 11 domestic banks (five conventional, five Shariah compliant and one specialized), and branches of 12 international banks (11 conventional and one Islamic). The sector is regulated by the central bank to ensure the safety of the banking industry through strict supervision and imposition of prudential ratios, such as lending limits and concentrations, investment limits, liquidity and capital adequacy.

Despite the challenging operating environment, the Kuwaiti banking sector remains resilient with stable profitability and improved asset quality.

The deposit portfolio of the local banks reached KD 46.7 billion by the end of 2019 with a compounded annual growth rate of 4% over the last five years. On the other side, the respective credit portfolio has reached KD 40.9 billion by the end of 2019 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 5% in 2019, with 2020 expected to follow a similar trend given a stable macroeconomic environment and the potential for higher investment with large planned projects in the power and petrochemical sectors and a backlog of awards built up over the previous year.

On the monetary front, The Central Bank of Kuwait ("CBK") reduced its benchmark discount rate by 25 bps to 2.75 percent in October 2019 in spite of 3 decreases by US Federal Reserve in 2019.

Strategy Highlights

The Bank is currently implementing its third five-year strategy - "Boubyan 2023" - which primarily focuses on organic growth. The focus will be to upgrade product portfolio, focus on target customer segment, enhance digital proposition and invest in human resources. During 2019, the Bank initiated is first international expansion plans with the announcement during December 2019 of an offer to acquire the Bank of London and Middle East.

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

- Boubyan continued robust growth performance in 2019.
- 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 78%.
- Launching various social initiatives as part of Corporate Social Responsibility.
- Moody's affirmed overall credit rating of A3 and Ba1 for Base Line with a stable outlook.
- Standard & Poor's Global rating agency assigned Long-Term Issuer Credit Rating at "A/Stable" which is the second highest credit rating among local banks.
- Fitch affirmed Long term IDR of A+ and Viability rating of BBB-.
- Fastest growing bank in Kuwait with total assets compounded annual growth rate of 15% during the last 5 years.
- Financing portfolio compounded annual growth rate of 16% over the last 5 years. Boubyan is now the 5th largest bank in Kuwait in terms of financing portfolio and total assets.
- Non-Performing Financing ratio maintained at 0.87% in 2019 which is one of the lowest rates in the industry.
- Awards from reputable organization such as Global Finance, The Banker, MGRP and Service Hero on growth and services respectively.
- Reaching 43 branches in 2019, with additional branches in the pipeline for 2020.

Financial Highlights

KD '000s

	2019	2018	2017
Financial performance			
Net financing income	119,459	120,306	107,364
Operating income	145,769	139,721	125,567
Net profit attributable to Equity holders of the Bank	62,647	56,108	47,605
Earnings per share – fils (restated)	20.4	19.2	16.0
Financial position			
Total assets	5,300,548	4,344,778	3,970,396
Financing receivables	3,728,772	3,262,285	2,876,778
Investments	487,229	435,791	339,858
Total depositors' accounts	4,347,226	3,720,935	3,410,123
Total shareholders' equity	575,448	408,257	374,756
Key performance ratios			
Return on average assets	1.3%	1.4%	1.3%
Return on average shareholders' equity*	11.7%	13.0%	11.8%
Cost-income ratio	41.9%	40.6%	42.1%
Non-performing financing ratio	0.9%	0.9%	0.8%
Provision coverage ratio	211%	252%	258%
Capital Ratios			
Capital Adequacy Ratio	20.3%	18.2%	19.4%
Tier 1 Ratio	19.2%	17.1%	18.3%
CET 1 Ratio	16.8%	14.3%	15.0%
Leverage ratio	11.2%	10.0%	10.0%

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

For the year ended December 31, 2019, net profit attributable to Equity holders of the Bank increased by 12% to KD 62.7 Million, or 20.4 fils per share, from KD 56.1 Million, or 19.2 fils per share, in 2018.

Operating income increased by 4% in 2019 to KD 145.8 Million compared to KD 139.7 Million in 2018. This increase was mainly driven by the growth in investment and fee income. Net fee income grew by KD 3.0 Million; a growth of 22% and net investment income grew by KD 3.1 Million. Net financing income decreased by 1% to KD 119.5 Million compared to KD 120.3 Million in 2018 reflecting higher funding costs resulting from the lagging effect of four rate increases in 2018, offset for the most part by the growth in the Banks financing portfolio of 14%.

Operating expenses increased by 8% to KD 61.1 Million, compared to KD 56.8 Million in 2018, driven primarily by the growth in business volumes, opening of new branches and investments in digital transformation reflecting in an increase in the cost to income ratio by 1.3%.

Provision for impairment decreased by 22% to KD 18.7 Million. The decrease in current period was on account of lower investment impairment as compared to 2018. The non-performing financing ratio stood at 0.87%, stable at this level since 2016 and is one of the lowest in the market, along with high coverage ratio of 211%.

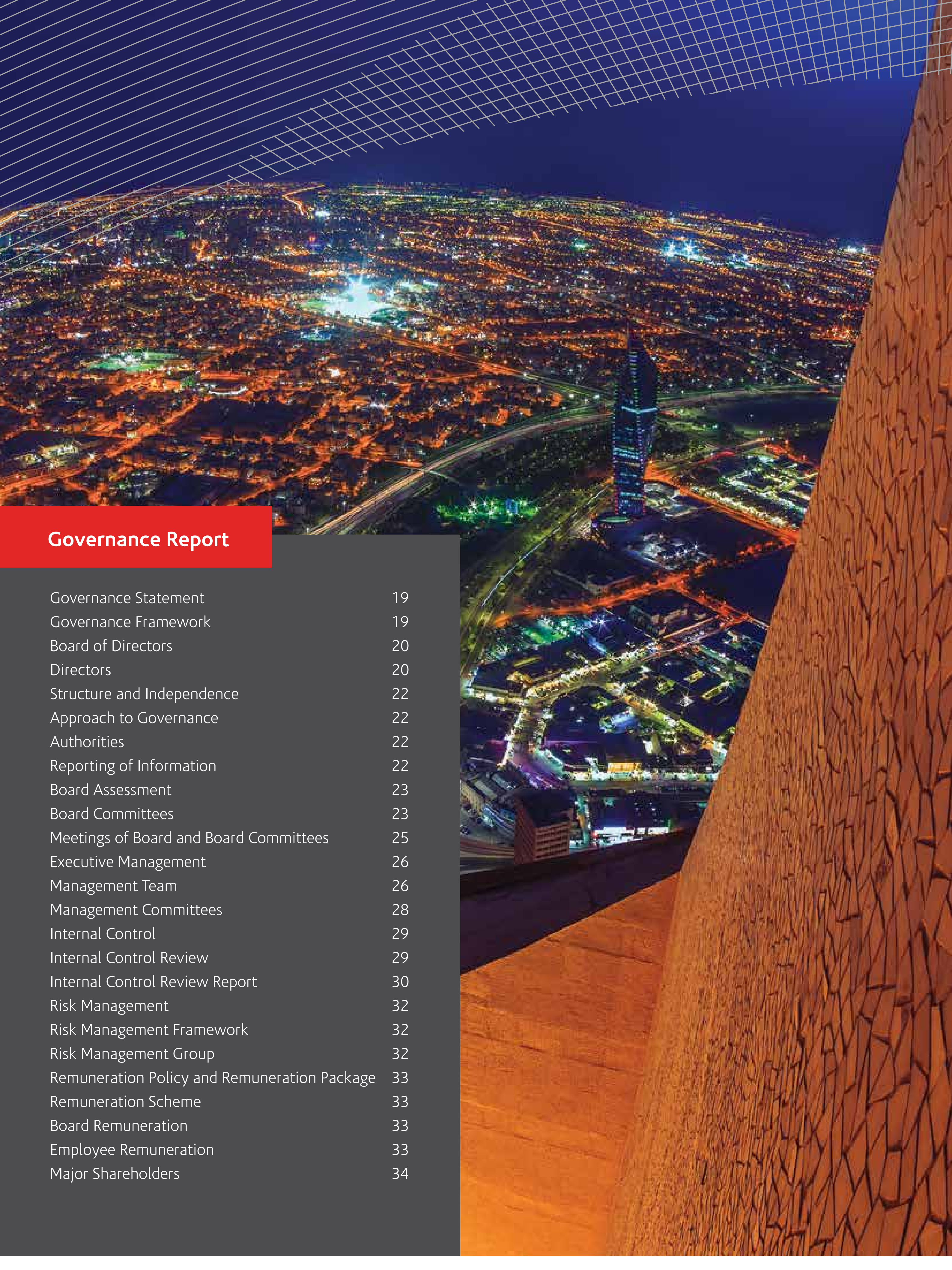
The Bank's profit margin of 2.7% compared to 3.0% in 2018 reflecting the increased funding costs resulting from increases in the benchmark rates from 2018.

Total assets grew by 22% in 2019 to reach KD 5.3 Billion. The growth is primarily driven by the increase in the financing portfolio which grew by 14% in 2019 to reach KD 3.7 Billion. Consumer and corporate financing portfolios grew by 11% and 17% respectively in 2019. Credit facilities growth was mainly from resident customers. The Bank continued to sustain asset quality of the credit growth which is reflected in its non-performing financing ratio.

During 2019, customer deposits grew by 17% to reach KD 4.3 Billion.

The Bank is well capitalized with a Capital Adequacy Ratio of 20.3% following the rights issuance of 15% in 2019. This increase in the Bank's capital was undertaken to support the planned business growth and improve capital related ratios.

The shareholders equity increased to KD 575 Million; a growth of 14% in 2019. The Board of Directors have proposed cash dividends of 9 Fils per share and stock dividends of 5% for the year 2019 which are subject to approval at the forthcoming Annual General Assembly meeting.



Governance Report

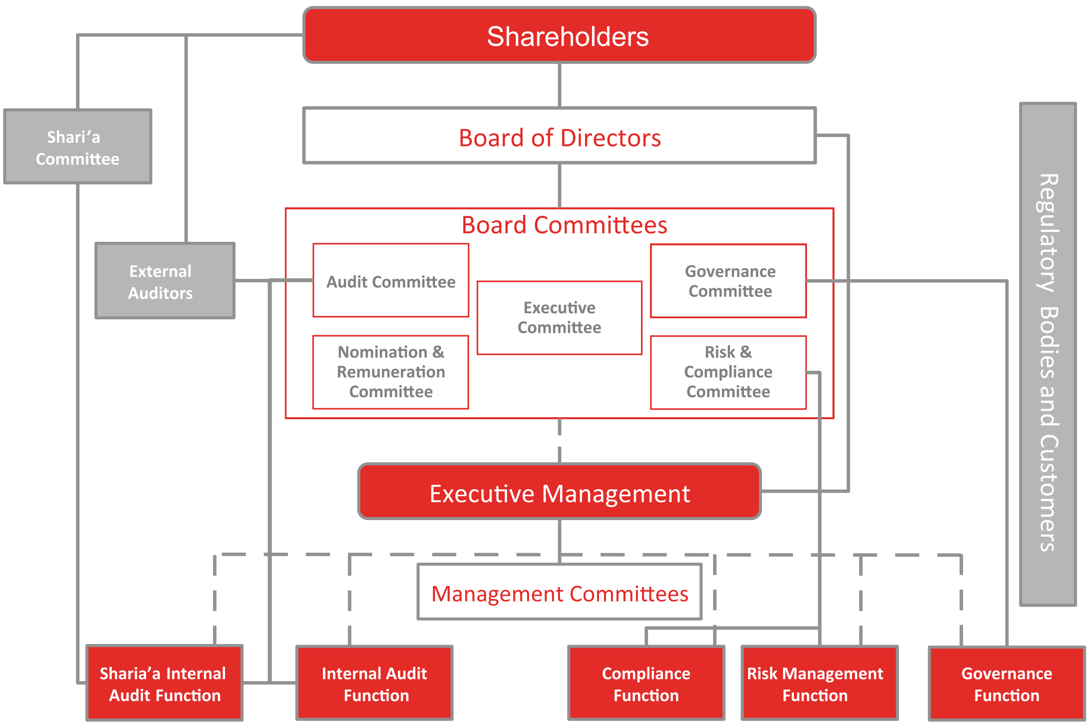
Governance Statement

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 properly implemented during 2019 the "Governance Framework" in line with its "Governance Manual". We ensured adequate compliance with the Corporate Governance and Sharia'a Governance requirements of the Central Bank of Kuwait ("CBK"). Furthermore, we have initiated action plans to adhere to the latest Corporate Governance requirements issued by the CBK on 10 September 2019 prior to the set deadline on 30 June 2020.

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. In 2019, the shareholders elected a new Board, where six Directors were re-elected and three new Directors joined the Board.

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

Mahmoud Yousef Al-Fulaij

Chairman (Non-Executive)
Year of joining: 2010

Skills and Experience:
Mr. Al-Fulaij is a well-known businessman in Kuwait with more than 38 years of experience; he manages two general trading and contracting companies in Kuwait. He graduated with a bachelor’s degree in Business Administration from the United States of America in 1980.

Other current posts:
- Board Director – Arcadia Real Estate Company, KSCC (Kuwait)

Adel Abdul Wahab Al-Majed

Vice-Chairman & Chief Executive Officer (Executive)
Year of joining: 2010

Skills and Experience:
Mr. Al-Majed joined Boubyan Bank in August 2009, and has more than 38 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 and Stanford, and other reputable institutions.

Other current posts:
- Chairman – Kuwait Banking Association (Kuwait)
- Chairman – Bank London & Middle East (UK)

Abdulaziz Abdullah Al-Shaya

Director (Non-Executive)
Year of joining: 2009

Skills and Experience:
Mr. Al-Shaya is a well-known businessman with more than 41 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)

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 41 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)

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 27 years in the fields of financing, investment, and banking. He is currently the CEO of CreditOne Kuwait Holding Company. He graduated from the United States of America with a bachelor's degree in Finance.

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

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 31 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 College - USA.

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

Skills and Experience:
Mr. Al-Hamad has more than 29 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 36 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)

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

Skills and Experience:
Mr. Al-Houti possesses more than 38 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 & 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.

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:

- The approval of critical matters including business plans, risk appetite and performance targets, and procedures for monitoring and controlling operations.
- 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.
- Appointment of the Executive Management team.
- 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 them 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 2019, 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.

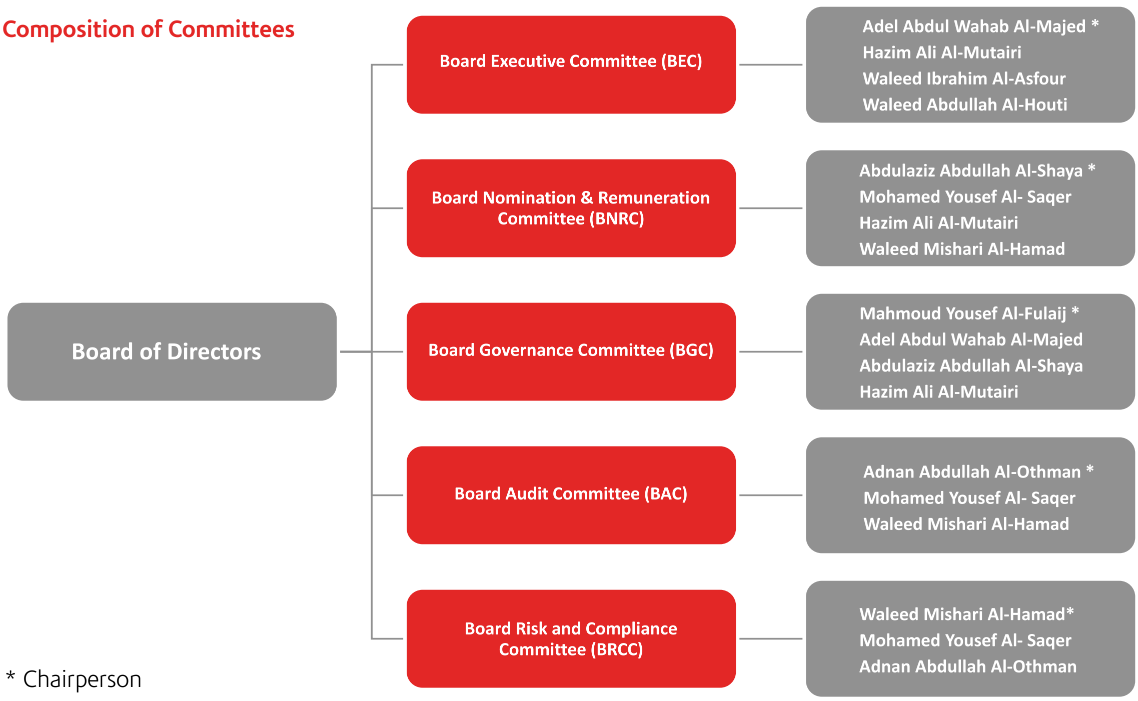
Board Committees

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



* 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 & 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 2019, the BEC met thirty-one 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 2019, the BNRC met six 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 & 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 2019, 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 quarterly financial statements.
- Discussing the internal 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 six times during 2019, 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 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.
- Assess proposals to engage 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 2019, the BRCC met four 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.

Meetings of Board and Board Committees

Attendance Number of Meetings Minimum Required Meetings	Board 10 6	BEC 31 6	BNRC 6 4	BCGC 2 2	BAC 6 4	BRCC 4 4
Mahmoud Yousef Al-Fulaij	10 (a)			2 (a)		
Adel Abdul Wahab Al-Majed	10	30 (a)		2		
Abdulaziz Abdullah Al-Shaya	8		6 (a)	2		
Adnan Abdullah Al-Othman	8				5 (a)	4
Hazim Ali Al-Mutairi	8	18 (c)	5 (c)	1 (c)	1 (b)	1 (b)
Mohamed Yousef Al-Saqer (New Director)	6 (c)		5 (c)		5 (c)	3 (b)
Waleed Mishari Al-Hamad	8	8 (b)	4 (c)		5 (c)	3 (a) / (c)
Waleed Ibrahim Al-Asfour (New Director)	7 (c)	22 (c)				
Waleed Abdullah Al-Houti (New Director)	8 (c)	23 (c)				
Ahmad Khalid Al-Homaizi (Former Director)	2 (b)	8 (b)				
Farid Soud Al-Fozan (Former Director)	2 (b)		1 (b)		1 (b)	
Nasser Abdulaziz Al-Jallal (Former Director)	2 (b)	5 (b)	1 (b)			

(a) Chairperson (b) Before 13/3/2019 (c) After 13/3/2019

Governance Report

Executive Management

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

Management Team

Adel Abdul Wahab Al-Majed

Vice-Chairman & Chief Executive Officer

Mr. Al-Majed joined Boubyan Bank in August 2009, and has more than 38 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 and Stanford, and other reputable institutions.

Abdullah Abdul Kareem Al-Tuwaijri

Deputy Chief Executive Officer

Mr. Al-Tuwaijri joined Boubyan Bank in December 2011 and has more than 31 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

Deputy Chief Executive Officer

Mr. Al-Saleh joined Boubyan Bank in October 2012, and has more than 32 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 more than 38 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 36 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 around 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 26 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.

Neven Raic

Group General Manager – Consumer Banking Group

Mr. Raic joined Boubyan Bank in August 2018 and has more than 27 years of experience in banking, particularly in retail banking. He held executive positions in various international banks, both in Europe and Middle East. In addition, Mr. Raic held several non-executive and supervisory board roles at various financial services institutions. He holds a master's degree in business administration from the Berlin School of Economics and Law.

Abdul Rahman Hamza Mansour

Chief Internal Auditor - Internal Audit Group

Mr. Hamza joined the Bank in year 2006 and has more than 38 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 24 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 32 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 16 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 Bank in 2018; he has over 34 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.

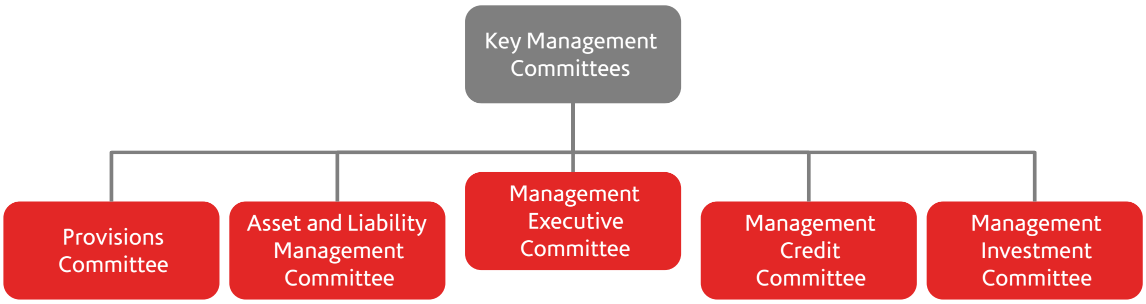
Governance Report

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 & 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 almost 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.

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.

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.
- Independent Internal Control Review.
- Internal Audit.
- Shari'a Internal Audit .
- Risk Management.
- Compliance.
- Governance.

Internal Control Review

In year 2019, Boubyan Bank engaged an external auditor in line with the CBK regulation to conduct an independent internal control review for year 2018 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 system the Internal Control Review report is attached in the next page.

Governance Report

Internal Control Review Report

Opinion letter

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

25 June, 2019

Dear Sirs,

Report on Accounting and Other Records and Internal Control Systems

In accordance with our letter of engagement dated 10 February 2019, 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 2018:

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

Our examination has been carried out as per the requirements of the Central Bank of Kuwait (CBK) circular dated 14 January 2019 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, instructions dated 23 July 2013 concerning anti-money laundering and combating financing of terrorism and the related instructions, instructions dated 9 February 2012 regarding confidentiality of customer's information and financial securities activities of the Group and activities and instructions regarding internal controls with respect to prevention and reporting of fraud and embezzlement cases.

1

Protiviti Member Firm Kuwait WLL
Al Shaheed Tower, 4th Floor, Khaled Ben Al Waleed Street, Sharq P.O. Box 1773, Safat 13018, Kuwait
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protiviti

Face the Future with Confidence

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 in 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 2018, and the materiality and risk rating of our findings, 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 2019,

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 2018, and

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

Yours faithfully,

Faisal Saqer Al Saqer
License No. 172 (A)
Protiviti Member Firm Kuwait WLL

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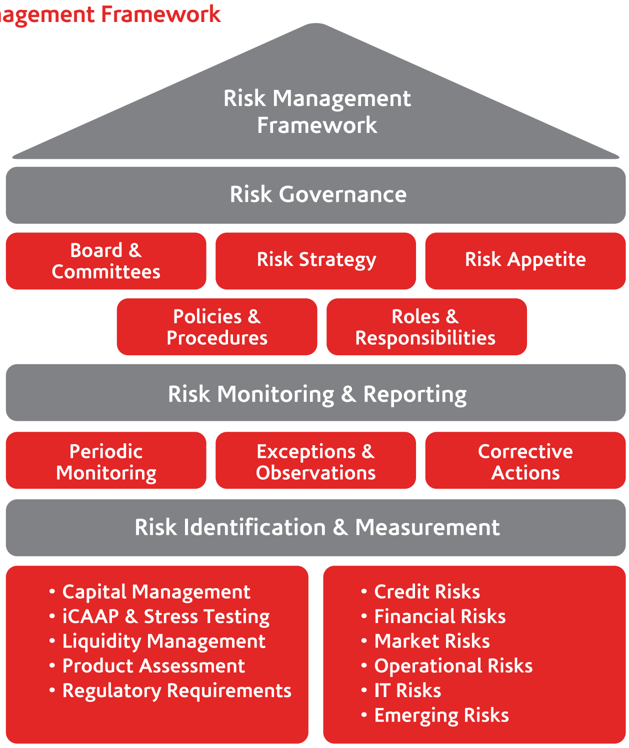
Risk Management

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 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 2019, 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 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 & CEO, who earns benefits as employee for his executive role.

For year 2019, 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, deferred cash bonus and/or Employee Stock Options (ESOP). The variable remuneration are reviewed by the Board Nomination and Remuneration Committee and approved by the Board of Directors.

Governance Report

The following table details the remuneration paid to certain employee categories for year ended 31 December 2019:

Employees Categories	Number of Employees	Fixed Remuneration KD'000	Variable Remuneration KD'000		Total KD'000
			Cash	Deferred Cash	
Senior Management	38	4,588	947	898	6,433
Material Risk Takers	24	2,665	621	610	3,896
Financial and Risk Control	18	1,349	193	179	1,720

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 3,201 thousand for the year ended 31 December 2019.

Major Shareholders

As of December 31, 2018, 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

Society.... Is Boubyan's Responsibility

Boubyan Bank's social responsibility is based on a clear pillar which relies upon addressing various segments of the society and making the best use of the events and activities organized by the bank, which reflects positively on the society and achieves sustainable growth.

The past year was a significant milestone concerning Boubyan Bank's continuation to undertake its social role through organizing many events and initiatives which highlighted its local leadership as to serving the society, and reiterating its CSR leadership position in Kuwait.

This leadership was confirmed whether on the quantitative or qualitative levels in terms of setting its targets that aim at confirming the importance of the private sector's contribution to building the Kuwaiti society.

Boubyan Bank seeks to create a positive model in the CSR field, marked by an out-of-the-box approach whether in terms of the type of initiatives taken or the targeted segments inside or outside Kuwait. The corporate social responsibility and the implementation of the programs thereof are not limited to one department at the bank, rather, all the bank's departments and branches are socially responsible and are considered key contributors to building the society. Hence, our staff are a key partner in our social services and we all bear our social responsibility.

Sports & Health At the Forefront

The year 2019 witnessed the bank's focus on sports and health activities as the bank organized the "It Really Matters" campaign in cooperation with the Blue Circle team on the occasion of the World Diabetes Day, which included a number of activities for all family members to highlight the importance of medical olc for diabetics in Kuwait.

The campaign also included a survey for all the visitors of the Avenues to know their opinion about the idea of a medical Id for diabetics, and then applying the same idea for all medical conditions that may require first aid. Moreover, on the occasion of the World Obesity Day, and in cooperation with Kuwait Obesity Association, the bank launched a campaign in October which provided free tests and medical consultations for Boubyan and non-Boubyan customers alike.

More than 2,000 persons benefited from the medical tests including blood pressure, blood glucose, HbA1c, BMI, cholesterol and others.

Boubyan Bank also organized the Health and Fitness Exhibition for its staff with the participation of a number of gymnasiums and healthy food companies among SMEs which maintain strong relationships with the bank through its Business Banking Unit, which also highlights the bank's continuous support to them.

Encouraging Kuwaiti Youth

The Kuwait Coffee Festival was celebrated as one of the most important events witnessed by Kuwait in the beginning of this year, which attracted around 50 projects of young Kuwaiti entrepreneurs in the cafés business that has been increasingly growing recently. The festival attracted more than 50,000 visitors over two days in the Safat Square.

Boubyan Bank did not forget about the adventurous trips' trend finding grounds among Kuwaiti youths, so, the bank organized a number of events and activities including Al Subbiya Challenge where more than 300 young participants and girls of various ages took part to explore the beautiful nature in Kuwait for the second year in a row.

Social Responsibility

The bank has also launched the biggest FIFA 2019 PlayStation Tournament with the participation of more than 1,500 youths who competed over 2 days at the premises of Gulf University for Science and Technology. The winner qualified to one of the international tournaments to be held in Abu Dhabi later on.

For the sixth time in a row, Boubyan Bank organized its Taste of Boubyan festival which aims at supporting young Kuwaitis' projects, while donating a share of the festival's revenues to support the activities of the Kuwaiti Red Crescent to help with the education of needy students inside Kuwait. A number of Kuwaiti chefs participated in the festival along with a group of Kuwaiti restaurants and cafés.

Boubyan Bank organized its Boubyan's Bank's Rubik's Cube Challenge at 360 Mall, which included a number of events and activities revolving around solving Rubik's Cube, the globally widespread game which depends on mental abilities.

During the past year, Boubyan Bank sponsored the 36th annual conference of the National Union of Kuwait Students, USA under the slogan "A Productive Generation for a Giving Nation". The bank sponsored the conference as a part of its efforts to support the Kuwaiti youth in various scientific, cultural and sports domains inside and outside the state of Kuwait so that they may serve their country and drive its development.

4th Noor Boubyan Campaign

The Noor Boubyan Campaign, organized by Boubyan Bank for the 4th year, was launched for one week in cooperation with the International Islamic Charitable Organization and Al-Darayn Volunteer Team aiming at restoring the eyesight of the visually impaired in the Niger, and succeeded in healing around 1,000 persons.

A thousand prescription glasses were distributed during the campaign in addition to Masters and PhD scholarships in ophthalmology with a view of sustainability in supporting less developed societies.

As a part of its constant efforts towards supporting cultural and creative events and activities, Boubyan Bank contributed to the organization of the Charitable Reading Marathon in cooperation with Takween Bookstore and Clinica Dental Center, and the marathon was held twice in 2019 at 360 Mall.

The idea of the marathon is to donate KD 1 for each 10 pages read by any of the participants in the marathon. During last year's marathon, more than 4,000 persons participated generating KD 25,000 in donations.

Activities During the Holy Month of Ramadan

For the sixth year in a row, Boubyan Bank organized Steps Campaign during the Holy Month of Ramadan, whose revenues were fully donated to sight-restoration operations in the Niger, by encouraging everyone to exercise walking at Al-Hamra Shopping Mall in Kuwait. The Bank donated KD 1 for every 5 minutes of walking completed by the participants.

Another initiative was Neqsat Boubyan, which was launched by Boubyan Bank for the second year in a row in Kuwait and the region; the initiative has achieved a resounding success in terms of the interaction from various segments of the society throughout the different social media platforms.

The bank also organized the "Recite Perfectly" Qur'an memorization competition, for young boys and girls aged 7 to 17. This is the most prominent competition across Kuwaiti banks since it is open to all segments of the society, whether children of customers or non-customers of Boubyan Bank, with prizes in excess of KD 8,000.

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

بنك بوبيان
Boubyan Bank

Risk Managment

For the year ended 31 December 2019

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 Bank's Sharia'a Supervisory Board. For further details on the Group's activities, please refer to note 29 of the Group's consolidated financial statements.

The consolidated financial statements and capital adequacy regulatory reports of the Group have been prepared and consolidated on a consistent basis, unless otherwise disclosed. For additional information on the basis of preparation and basis of consolidation please refer to notes 2 and 3.1 of the Group's consolidated financial statements for the year ended 31 December 2019.

The principal subsidiaries of the Group are presented in the note 15 of the Group's consolidated financial statements.

All subsidiaries have been fully consolidated under the regulatory scope of consolidation for regulatory capital calculations.

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

- All the significant investments in banking and financial entities classified as associates under Note 16 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 2019 comprised **2,884,079,860** issued and fully-paid up equity shares.

The regulatory capital for the Group is detailed below:

Table 1	**2019** **KD '000s**	2018 KD '000s
Regulatory Capital		
Common Equity Tier 1 Capital	**546,790**	385,348
Additional Tier 1 Capital	**75,616**	75,658
Tier 1 Capital	**622,406**	461,006
Tier 2 Capital	**37,288**	30,871
Total Regulatory Capital	**659,694**	491,877

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 Bank'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:

	2019		2018	
Table 2	**MCR***	**CAR**	MCR*	CAR
Common Equity Tier 1 capital adequacy ratio	**10.00%**	**16.84%**	10.00%	14.25%
Tier 1 capital adequacy ratio	**11.50%**	**19.17%**	11.50%	17.05%
Total Regulatory capital adequacy ratio	**13.50%**	**20.32%**	13.50%	18.19%

* 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 2019 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 2019 was **KD 384,834 thousand**, (31 December 2018: KD 317,692 thousand) as detailed below:

	2019			2018		
	Gross credit exposure	**Risk weighted assets**	**Minimum capital requirement**	Gross credit exposure	Risk weighted assets	Capital charge
Table 3	**KD '000s**	**KD '000s**	**KD '000s**	KD '000s	KD '000s	KD '000s
Cash	**38,939**	**-**	**-**	33,539	-	-
Claims on sovereigns	**646,858**	**65,081**	**8,461**	392,322	399	52
Claims on international organisations	**17,567**	**-**	**-**	100,877	-	-
Claims on public sector Entities	**119,122**	**9,395**	**1,221**	115,826	1,443	188
Claims on MDBs	**25,682**	**1,618**	**210**	13,209	-	-
Claims on banks	**479,236**	**77,409**	**10,063**	262,058	45,525	5,918
Claims on corporates	**2,052,115**	**1,214,930**	**157,941**	1,245,104	670,593	87,177
Regulatory retail exposure	**1,612,895**	**1,078,337**	**140,184**	1,449,129	894,591	116,297
Past due exposure	**20,739**	**13,855**	**1,801**	9,940	3,039	395
Investments in real estate	**46,555**	**93,109**	**12,104**	24,036	48,072	6,249
Investments and financing to customers	**124,281**	**120,211**	**15,627**	656,438	562,267	73,095
Sukuk exposures	**73,677**	**29,452**	**3,829**	69,396	25,062	3,258
Other exposures*	**271,966**	**256,871**	**33,393**	193,128	192,791	25,063
	5,529,632	**2,960,268**	**384,834**	4,565,002	2,443,782	317,692

*"Other exposures" above includes a threshold deduction of **KD 34,014 thousand** (31 December 2018: KD 38,654 thousand) and an amount of **KD 19,613 thousand** (31 December 2018: KD 22,145 thousand) 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 3,751 thousand** arising only from foreign exchange risk, (31 December 2018: KD 3,913 thousand).

5.3 Operational Risk:

The Minimum Capital requirement (MCR) in respect of operational risk was **KD 33,398 thousand**, (31 December 2018: KD 29,948 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 Bank'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 Bank'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 Bank'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 Bank'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 Bank's comprehensive Risk Management Policy are:

- The Board of Directors provides overall risk management direction and oversight.
- The Bank'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 Bank'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 Bank's overall risks. The function also ensures that:

- The Bank'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 Bank'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 Bank's credit risk exposure. This approach comprises credit limits which are established for all customers after a careful assessment of their credit worthiness.

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

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

In compliance with CBK regulations, financing to individual Board Members and related parties is fully secured and monitored by the Board Executive Committee. 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 Bank's credit risk monitoring

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

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

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 Bank's credit risk mitigation strategy

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

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

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

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:

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

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

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

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

	2019		2018	
	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	**38,939**	**-**	33,539	-
Claims on sovereigns	**646,858**	**-**	392,322	-
Claims on international organisations	**17,567**	**-**	100,877	-
Claims on public sector Entities	**119,122**	**-**	115,826	-
Claims on MDBs	**25,682**	**-**	13,209	-
Claims on banks	**479,236**	**-**	262,058	-
Claims on corporates	**2,052,115**	**289,895**	1,245,104	231,429
Regulatory retail exposure	**1,612,895**	**-**	1,449,129	-
Past due exposure	**20,739**	**-**	9,940	1,608
Investments in real estate	**46,555**	**-**	24,036	-
Investments and financing to customers	**124,281**	**4,413**	656,438	49,235
Sukuk exposures	**73,677**	**-**	69,396	-
Other exposures	**271,966**	**-**	193,128	-
	5,529,632	**294,308**	4,565,002	282,272

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:

	2019			2018		
	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	**38,939**	**13,128**	**25,811**	33,539	7,870	25,669
Claims on sovereigns	**646,858**	**218,085**	**428,773**	392,322	92,062	300,260
Claims on international organisations	**17,567**	**5,923**	**11,644**	100,877	23,672	77,205
Claims on public sector Entities	**119,122**	**40,161**	**78,961**	115,826	27,180	88,646
Claims on MDBs	**25,682**	**8,658**	**17,024**	13,209	3,100	10,109
Claims on banks	**479,236**	**178,812**	**300,424**	262,058	76,412	185,646
Claims on corporates	**2,052,115**	**792,073**	**1,260,042**	1,245,104	409,883	835,221
Regulatory retail exposure	**1,612,895**	**543,780**	**1,069,115**	1,449,129	340,052	1,109,077
Past due exposure	**20,739**	**6,992**	**13,747**	9,940	2,332	7,608
Investments in real estate	**46,555**	**46,555**	**-**	24,036	24,036	-
Investments and financing to customers	**124,281**	**41,901**	**82,380**	656,438	154,040	502,398
Sukuk exposures	**73,677**	**24,840**	**48,837**	69,396	16,284	53,112
Other exposures	**271,966**	**178,960**	**93,006**	193,128	120,781	72,347
	5,529,632	**2,099,868**	**3,429,764**	4,565,002	1,297,704	3,267,298

	2019			2018		
	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	**37,039**	**11,535**	**25,504**	32,344	6,884	25,460
Claims on sovereigns	**551,226**	**172,002**	**379,224**	388,385	126,198	262,187
Claims on international organisations	**71,748**	**21,617**	**50,131**	88,218	68,917	19,301
Claims on public sector Entities	**120,334**	**37,081**	**83,253**	111,254	28,872	82,382
Claims on MDBs	**25,551**	**7,080**	**15,471**	13,118	10,591	2,527
Claims on banks	**323,537**	**114,321**	**209,216**	291,219	74,165	217,054
Claims on corporates	**1,772,543**	**658,919**	**1,113,624**	1,205,522	367,540	837,982
Regulatory retail exposure	**1,535,044**	**475,130**	**1,059,914**	1,385,760	294,477	1,091,283
Past due exposure	**17,908**	**5,531**	**12,377**	11,674	2,484	9,190
Investments in real estate	**30,103**	**30,103**	**-**	27,776	27,776	-
Investments and financing to customers	**346,419**	**102,164**	**244,255**	635,745	134,905	500,840
Sukuk exposures	**76,131**	**23,406**	**52,725**	65,376	52,098	13,278
Other exposures	**236,724**	**153,501**	**83,223**	184,304	118,808	65,496
	5,141,307	**1,812,390**	**3,328,917**	4,440,695	1,313,715	3,126,980

* 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)

	2019			2018		
	Net credit exposure	**Self-funded exposure**	**Funded through investments accounts exposure**	Net credit exposure	Self-funded exposure	Funded through investment s accounts exposure
Table 7	**KD '000s**	**KD '000s**	**KD '000s**	KD '000s	KD '000s	KD '000s
Cash	**38,939**	**13,128**	**25,811**	33,539	7,870	25,669
Claims on sovereigns	**646,858**	**218,085**	**428,773**	392,322	92,062	300,260
Claims on international organisations	**17,567**	**5,923**	**11,644**	100,877	23,672	77,205
Claims on public sector Entities	**119,122**	**40,161**	**78,961**	115,826	27,180	88,646
Claims on MDBs	**25,682**	**8,658**	**17,024**	13,209	3,100	10,109
Claims on banks	**479,236**	**178,812**	**300,424**	262,058	76,412	185,646
Claims on corporates	**1,762,220**	**688,139**	**1,074,081**	1,013,675	346,485	667,190
Regulatory retail exposure	**1,612,895**	**543,780**	**1,069,115**	1,449,129	340,052	1,109,077
Past due exposure	**20,739**	**6,992**	**13,747**	8,332	1,955	6,377
Investments in real estate	**46,555**	**46,555**	**-**	24,036	24,036	-
Investments and financing to customers	**119,868**	**40,413**	**79,455**	607,203	142,486	464,717
Sukuk exposures	**73,677**	**24,840**	**48,837**	69,396	16,284	53,112
Other exposures	**271,966**	**178,960**	**93,006**	193,128	120,781	72,347
	5,235,324	**1,994,446**	**3,240,878**	4,282,730	1,222,375	3,060,355

As at 31 December 2019, **23.7%** of the Group's net credit risk exposure was rated by accredited External Credit Assessment Institutions (ECAIs), (31 December 2018: **19.2**%) as detailed below:

	2019			2018		
	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	**38,939**	**-**	**38,939**	33,539	-	33,539
Claims on sovereigns	**646,858**	**646,858**	**-**	392,322	392,322	-
Claims on international organisations	**17,567**	**17,567**	**-**	100,877	100,877	-
Claims on public sector Entities	**119,122**	**12,537**	**106,585**	115,826	9,672	106,154
Claims on MDBs	**25,682**	**25,682**	**-**	13,209	-	13,209
Claims on banks	**479,236**	**433,436**	**45,800**	262,058	249,952	12,106
Claims on corporates	**1,762,220**	**30,663**	**1,731,557**	1,013,675	-	1,013,675
Regulatory retail exposure	**1,612,895**	**-**	**1,612,895**	1,449,129	-	1,449,129
Past due exposure	**20,739**	**-**	**20,739**	8,332	-	8,332
Investments in real estate	**46,555**	**-**	**46,555**	24,036	-	24,036
Investments and financing to customers	**119,868**	**-**	**119,868**	607,203	-	607,203
Sukuk exposures	**73,677**	**73,677**	**-**	69,396	69,396	-
Other exposures	**271,966**	**-**	**271,966**	193,128	-	193,128
	5,235,324	**1,240,420**	**3,994,904**	4,282,730	822,219	3,460,511

6. RISK MANAGEMENT (CONTINUED)

6.2 Risk management processes (continued)

6.2.9 Gross, average and net credit exposures (continued)

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.

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

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**

31 December 2018	Middle East	North America	Europe	Asia and Other	Total
Table 9	KD '000s	KD '000s	KD '000s	KD '000s	KD '000s
Cash	33,539	-	-	-	33,539
Claims on sovereigns	384,193	-	4,309	3,820	392,322
Claims on international organisations	-	-	-	100,877	100,877
Claims on public sector Entities	115,322	-	-	504	115,826
Claims on MDBs	13,209	-	-	-	13,209
Claims on banks	234,705	4,007	19,283	4,063	262,058
Claims on corporates	1,245,104	-	-	-	1,245,104
Regulatory retail exposure	1,449,129	-	-	-	1,449,129
Past due exposure	9,727	-	-	213	9,940
Investments in real estate	18,554	-	5,482	-	24,036
Investments and financing to customers	656,438	-	-	-	656,438
Sukuk exposures	66,887	-	303	2,206	69,396
Other exposures	158,561	-	19,459	15,108	193,128
	4,385,368	4,007	48,836	126,791	4,565,002

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 2019 **Table 10**	**Up to 3 months KD '000s**	**3 – 6 months KD '000s**	**6 – 12 months KD '000s**	**Over 1 year KD '000s**	**Total KD '000s**
Cash	**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**

31 December 2018 Table 10	Up to 3 months KD '000s	3 – 6 months KD '000s	6 – 12 months KD '000s	Over 1 year KD '000s	Total KD '000s
Cash	33,539	-	-	-	33,539
Claims on sovereigns	151,727	98,075	44,049	98,471	392,322
Claims on international organisations	100,877	-	-	-	100,877
Claims on public sector Entities	90,128	16,026	-	9,672	115,826
Claims on MDBs	-	-	-	13,209	13,209
Claims on banks	256,869	4,305	47	837	262,058
Claims on corporates	608,308	229,090	217,782	189,924	1,245,104
Regulatory retail exposure	12,405	2,693	13,547	1,420,484	1,449,129
Past due exposure	9,940	-	-	-	9,940
Investments in real estate	-	-	-	24,036	24,036
Investments and financing to customers	560,969	70,996	24,473	-	656,438
Sukuk exposures	-	-	-	69,396	69,396
Other exposures	14,606	-	9,476	169,046	193,128
	1,839,368	421,185	309,374	1,995,075	4,565,002

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 2019 was **KD 33,171 thousand** against which a specific provision of **KD 12,476 thousand** has been made, (31 December 2018: KD 28,308 thousand and KD 18,325 thousand), as detailed below:

	2019			2018		
	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	**23,965**	**9,039**	**14,926**	13,180	8,120	5,060
Regulatory retail exposure	**9,206**	**3,437**	**5,769**	15,128	10,205	4,923
	33,171	**12,476**	**20,695**	28,308	18,325	9,983

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

	2019			2018		
	Middle East	**Asia**	**Total**	Middle East	Asia	Total
Table 12	**KD '000s**	**KD '000s**	**KD '000s**	KD '000s	KD '000s	KD '000s
Past due and impaired financing	**33,171**	**-**	**33,171**	27,793	515	28,308
Related specific provision	**4,371**	**-**	**4,371**	17,810	515	18,325

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 Bank's total provision as at 31 December 2019 was **KD 69,336 thousand** inclusive of a general provision of **KD 56,735 thousand**, (31 December 2018: KD 71,217 thousand and KD 52,892 thousand), as detailed below:

	2019	2018
Table 13	**KD '000s**	KD '000s
Claim on corporates	**40,893**	39,029
Regulatory retail exposure	**15,842**	13,863
	56,735	52,892

The total general provision above includes **KD 2,261 thousand** relating to "non-cash" facilities in accordance with CBK regulations, (31 December 2018: KD 2,186 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:

Table 14	**2019**	2018
	KD '000s	KD '000s
Middle East and North Africa	**54,474**	50,706
	54,474	50,706

The analysis of specific and general provisions is further detailed in note 8 and 13 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 Bank's activities related to market risk. Market risk arising from banking book activities is the primary responsibility of the Bank'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 Bank's Risk Management collates and reviews actual loss data arising from the Bank'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 Bank's business processes are closely monitored to identify, assess, control and prevent potentially illicit use of the Bank's services for laundering money and/or financing terrorism. The Bank'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, 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 **46.7%** to reach **KD 348,614 thousand** on 31 December 2019, (31 December 2018: increased by 7.5% to reach KD 237,480 thousand).

7. COMPLIANCE WITH SHARI'A PRINCIPLES

Fatwa & Shari'a Supervisory Board of the Bank is responsible for monitoring the Bank'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 Bank'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 Bank's compliance with Shari'a fatwa and resolutions are issued according to those fatwa and resolutions and it is attached along with Bank'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.

According to the law no 46/2003 related to Zakat should be paid by listed companies, the Bank will pay **KD 646 thousand** for the year ended 31 December 2019, (31 December 2018: KD 577 thousand), and it is subject to auditing procedures by external consultant and approval by Ministry of Finance.

The violations related to compliance of Sharia's principles for the year ended 31 December 2019 is **Nil**, (31 December 2018: Nil).

The Shari's Supervisor Board's remuneration for the year ended 31 December 2019 is **KD 102 thousand**, (31 December 2018: KD 90 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 Bank'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:

	2019	2018
Table 15	**KD '000s**	KD '000s
Common Equity Tier 1 Capital before regulatory adjustments	**549,548**	389,808
Less:		
Total regulatory adjustments to Common Equity Tier 1	**2,758**	3,264
Deductions from Capital Base arising from Investments in FIs where ownership is > 10%	**-**	1,196
Common Equity Tier 1 Capital (CET1)	**546,790**	385,348
Additional Tier 1 Capital (AT1)	**75,616**	75,658
Tier 1 Capital (T1 = CET1 + AT1)	**622,406**	461,006
Tier 2 Capital (T2)	**37,288**	30,871
Total Capital (TC = T1 + T2)	**659,694**	491,877
Total risk-weighted assets	**3,246,032**	2,704,257
Capital ratios and buffers		
Common Equity Tier 1 Capital (as percentage of risk-weighted assets)	**16.84%**	14.25%
Tier 1 Capital (as percentage of risk-weighted assets)	**19.17%**	17.05%
Total Regulatory Capital (as percentage of risk-weighted assets)	**20.32%**	18.19%
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 2019 **Table 16 - Step 1 and 2 of Reconciliation requirements**	**Balance sheet as in published financial statements**	**Under regulatory scope of consolidation**	
	KD '000s	**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	427,347	427,347	
Islamic financing to customers	3,728,772	3,728,772	
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
Proposed bonus shares	14,420	14,420	F
Treasury shares	(54)	(54)	G
Statutory reserve	31,848	31,848	H
Other reserves	22,114	22,114	I
Retained earnings	35,817	35,817	J
Proposed cash dividends	25,954	25,954	K
Equity attributable to equity holders of the Bank	**575,448**	**575,448**	
Non-controlling interests	2,345	2,345	
Perpetual Tier 1 Sukuk	75,388	75,388	
of which limited recognition eligible as CET1 Capital	-	-	
of which limited recognition eligible as AT1 Capital	75,616	75,616	L
of which limited recognition eligible as Tier 2 Capital	40	40	M
Total equity	**653,181**	**653,181**	
Total liabilities and equity	**5,300,548**	**5,300,548**	

10. RECONCILIATION REQUIREMENTS (CONTINUED)

31 December 2018 Table 16 - Step 1 and 2 of Reconciliation requirements	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Reference
	KD '000s	KD '000s	
Assets			
Cash and balances with banks	83,805	83,805	
Deposits with Central Bank of Kuwait	244,685	244,685	
Deposits with other banks	237,088	237,088	
Islamic financing to customers	3,262,285	3,262,285	
of which general provisions(netted above) capped for Tier 2 inclusion	30,824	30,824	A
Financial assets at fair value through profit or loss	309,339	309,339	
Available for sale investments	73,500	73,500	
Investment in associates	28,916	28,916	
of which goodwill	2,622	2,622	B
of which investments in the capital of banking entities above the threshold deduction that are outside the scope of regulatory consolidation	1,196	1,196	C
Investment properties	24,036	24,036	
Other assets	24,088	24,088	
Property and equipment	57,036	57,036	
Total assets	**4,344,778**	**4,344,778**	
Liabilities			
Due to banks	97,216	97,216	
Depositors' accounts	3,720,935	3,720,935	
Other liabilities	40,667	40,667	
Total liabilities	**3,858,818**	**3,858,818**	
Equity			
Share capital	238,847	238,847	D
Share premium	62,896	62,896	E
Proposed bonus shares	11,942	11,942	F
Treasury shares	(643)	(643)	G
Statutory reserve	25,251	25,251	H
Other reserves	19,165	19,165	I
Retained earnings	31,707	31,707	J
Proposed cash dividends	19,092	19,092	K
Equity attributable to equity holders of the Bank	**408,257**	**408,257**	
Non-controlling interests	2,315	2,315	
Perpetual Tier 1 Sukuk	75,388	75,388	
of which limited recognition eligible as CET1 Capital			
of which limited recognition eligible as AT1 Capital	75,658	75,658	L
of which limited recognition eligible as Tier 2 Capital	47	47	M
Total equity	**485,960**	**485,960**	
Total liabilities and equity	**4,344,778**	**4,344,778**	

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.

31 December 2019

Relevant row number in common disclosure template	Table 17: Step 3 of Reconciliation requirements	Component regulatory capital	Source based on reference letters of the balance sheet from step 2
		KD '000s	
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**	J
3	Accumulated other comprehensive income (and other reserves)	**68,382**	F + H + I
4	Common share capital issued by subsidiaries and held by third parties (minority interest)	-	
5	**Common Equity Tier 1 Capital before regulatory adjustments**	**549,548**	
Common Equity Tier 1 Capital : regulatory adjustments			
6	Goodwill	**2,704**	B
7	Other intangibles other than mortgage-servicing rights (net of related tax liability)	**-**	
8	Investments in own shares	**54**	G
9	Deductions from Capital Base arising from Investments in FIs where ownership is > 10%	**-**	C
10	**Total regulatory adjustments to Common Equity Tier 1**	**2,758**	
11	**Common Equity Tier 1 Capital (CET1)**	**546,790**	
Additional Tier 1 capital : instruments			
12	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
13	**Additional Tier 1 capital before regulatory adjustments**	**75,616**	
Additional Tier 1 Capital : regulatory adjustments			
14	Additional Tier 1 Capital (AT1)	**75,616**	
15	**Tier 1 Capital (T1 = CET1 + AT1)**	**622,406**	
Tier 2 Capital : instruments and provisions			
16	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 12) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	**40**	M
17	General Provisions included in Tier 2 Capital	**37,248**	A
18	**Tier 2 Capital before regulatory adjustments**	**37,288**	
19	Total capital (TC = T1 + T2)	**659,694**	

10. RECONCILIATION RFQUIREMENTS (CONTINUED)

31 December 2018

Relevant row number in common disclosure template	Table 17: Step 3 of Reconciliation requirements	Component regulatory capital	Source based on reference letters of the balance sheet from step 2
		KD '000s	
	Common Equity Tier 1 capital: instruments and reserves		
1	Directly issued qualifying common share capital plus related stock surplus	301,743	D + E
2	Retained earnings	31,707	J
3	Accumulated other comprehensive income (and other reserves)	56,358	F + H + I
4	Common share capital issued by subsidiaries and held by third parties (minority interest)	-	
5	**Common Equity Tier 1 Capital before regulatory adjustments**	389,808	
	Common Equity Tier 1 Capital : regulatory adjustments		
6	Goodwill	2,622	B
7	Other intangibles other than mortgage-servicing rights (net of related tax liability)	-	
8	Investments in own shares	642	G
9	Deductions from Capital Base arising from Investments in FIs where ownership is > 10%	1,196	C
10	**Total regulatory adjustments to Common Equity Tier 1**	4,460	
11	**Common Equity Tier 1 Capital (CET1)**	385,348	
	Additional Tier 1 capital : instruments		
12	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)	75,658	L
13	**Additional Tier 1 capital before regulatory adjustments**	75,658	
	Additional Tier 1 Capital : regulatory adjustments		
14	Additional Tier 1 Capital (AT1)	75,658	
15	**Tier 1 Capital (T1 = CET1 + AT1)**	461,006	
	Tier 2 Capital : instruments and provisions		
16	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 12) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	47	M
17	General Provisions included in Tier 2 Capital	30,824	A
18	**Tier 2 Capital before regulatory adjustments**	30,871	
19	Total capital (TC = T1 + T2)	491,877	

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:

	2019	2018
Table 18		
Tier 1 Capital (KD '000s)	**622,406**	461,006
Total Exposures (KD '000s)	**5,575,567**	4,606,606
Leverage Ratio (%)	**11.16%**	10.01%

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

	2019	2018
Table 19	**KD '000s**	KD '000s
On-balance sheet exposures	**5,300,548**	4,342,156
Exposures to Sharia compliant hedging contracts	**12,354**	8,131
Off-balance sheet items	**262,665**	256,319
Total Exposures	**5,575,567**	4,606,606

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

	2019	2018
Table 20	**KD '000s**	KD '000s
Item		
Total consolidated assets as per published financial statements	**5,300,548**	4,344,778
Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	**-**	(2,622)
Adjustment for fiduciary assets recognised 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	**12,354**	8,131
Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	**262,665**	256,319
Other adjustments	**-**	-
Leverage ratio exposure	**5,575,567**	4,606,606

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 Bank'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 bank'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 Bank'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 bank'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 Bank'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 bank'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 Bank's HQLA during the three months ended 31 December 2019, was averaging at **KD 623 Million** (post-haircut) against an average liquidity requirement of **KD 454 Million**. Hence, the LCR averaged **137%** during the last quarter of 2019.

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 **79%** 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 2019 and 31 December 2019 for the Bank at Local level.

Table 21

KD '000s

SL.	Description	Value before applying flow rates	Value after applying flow rates
		(average)**	(average)**
High-Quality Liquid Assets (HQLA)			
1	Total HQLA (before adjustments)		**622,683**
Cash Outflows			
2	Retail deposits and small business		
3	• Stable deposits	-	-
4	• Less stable deposits	**1,034,914**	**156,103**
5	Deposit, investment accounts and unsecured wholesale funding excluding the deposits of small business customers:		
6	• Operational deposits	-	-
7	• Non-operational deposits (other unsecured commitments)	**1,123,269**	**668,161**
8	Secured Funding		-
9	Other cash outflows, including:		
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	-	-
13	Other contingent funding obligations	**1,414,267**	**70,713**
14	Other contractual cash outflows obligations	**94,008**	**94,008**
15	**Total Cash Outflows**		**988,985**
Cash Inflows			
16	Secured lending transactions	-	-
17	Inflows from the performing exposures (as per the counterparties)	**778,117**	**535,296**
18	Other cash Inflows	-	-
19	**Total Cash Inflows**	**778,117**	**535,296**
LCR			
20	Total HQLA (after adjustments)		**622,683**
21	Net Cash Outflows		**453,689**
22	LCR		**137%**

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 Bank'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 Bank's remuneration policy and Corporate Governance Code.

Boubyan Bank remuneration policy is developed and implemented at the Group level and covers Bank'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 2019 was **38 employees**, (31 December 2018: 35 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 2019 was **24 employees**, (31 December 2018: 25 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 2019 was **18 employees**, (31 December 2018: 18 employees).

13.1.2 Remuneration Structure and design

Boubyan Bank'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 Bank's financial remuneration framework has been linked with long-term and short-term performance objectives. The Board-approved Bank'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 Bank's level.

The Bank's Performance Management Policy sets the methodology of linking an individual's annual performance with the Bank'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 **6 times**, (31 December 2018: 4 times).

The total remuneration paid to the Committee members was **Nil**, (31 December 2018: 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 2019 was **47 employees** and they represent **5.9%** of the total number of employees which received a variable remuneration, (31 December 2018: 40 employees representing 6.3% of the total number of employees).

The number of employees who received sign-on awards or guaranteed bonuses during 2019 was **Nil** (31 December 2018: 46).

The total amount of end-of-service benefit paid during 2019 was **KD 284 thousand**; this is related to **6 employees** (31 December 2018: KD 336 thousand related to 4 employees).

The total amount of outstanding deferred remuneration as at 31 December 2019 was **KD 2,559 thousand** (31 December 2018: KD 2,489 thousand).

Total amount of deferred remuneration paid during 2019 was **KD 617 thousand** (31 December 2018: KD 578 thousand).

Total salaries & remuneration granted during reported period

Senior Management

	2019		2018	
	Unrestricted	**Deferred**	Unrestricted	Deferred
Table 22	**KD ‘000s**	**KD ‘000s**	KD ‘000s	KD ‘000s
Fixed remuneration:				
- Cash	**3,944**	**-**	3,695	-
- Others (refer note below)	**-**	**645**	-	546
Variable remuneration:				
- Cash	**945**	**-**	962	-
- ESOP/DCC	**-**	**899**	-	884

Material Risk Takers*

	2019		2018	
	Unrestricted	**Deferred**	Unrestricted	Deferred
Table 23	**KD ‘000s**	**KD ‘000s**	KD ‘000s	KD ‘000s
Fixed remuneration:				
- Cash	**2,281**	**-**	2,349	-
- ESOP/DCC	**-**	**384**	-	335
Variable remuneration:				
- Cash	**621**	**-**	684	-
- ESOP/DCC	**-**	**610**	-	637

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

Employees Category

	2019		2018	
Table 24	**Number of employees**	**Remuneration Fixed and Variable**	Number of employees	Remuneration Fixed and Variable
		KD ‘000s		KD ‘000s
Senior Management	**38**	**6,433**	37	6,087
Material Risk Takers*	**24**	**3,896**	25	4,005
Financial and Risk Control	**18**	**1,720**	18	1,608

* Material Risk Takers are identified as Senior Management

14. OTHER DISCLOSURES

14.1 Regulatory Capital Composition: Common Disclosure Template

Row Number	Table 25	KD '000s 2019	2018
	Common Equity Tier 1 Capital: instruments and reserves	**2019**	2018
1	Directly issued qualifying common share capital plus related stock surplus	**445,349**	301,743
2	Retained earnings	**35,817**	31,707
3	Accumulated other comprehensive income (and other reserves)	**68,382**	56,358
4	Common share capital issued by subsidiaries and held by third parties (minority interest)	**-**	-
5	Common Equity Tier 1 capital before regulatory adjustments	**549,548**	389,808
	Common Equity Tier 1 Capital : regulatory adjustments		
6	Goodwill (net of related tax liability)	**(2,704)**	(2,622)
7	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	**(54)**	(642)
8	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	**-**	(1,196)
9	**Total regulatory adjustments to Common Equity Tier 1**	**(2,758)**	(4,460)
10	Common Equity Tier 1 Capital (CET1)	**546,790**	385,348
	Additional Tier 1 Capital : instruments		
11	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**	75,658
12	**Additional Tier 1 Capital before regulatory adjustments**	**75,616**	75,658
	Additional Tier 1 Capital : regulatory adjustments		
13	Additional Tier 1 capital (AT1)	**-**	-
14	**Tier 1 Capital (T1 = CET1 + AT1)**	**622,406**	461,006
	Tier 2 Capital : instruments and provisions		
15	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 12) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	**40**	47
16	General Provisions included in Tier 2 Capital	**37,248**	30,824
17	**Tier 2 capital before regulatory adjustments**	**37,288**	30,871
	Tier 2 Capital: regulatory adjustments		
18	National specific regulatory adjustments	**-**	-
19	Total regulatory adjustments to Tier 2 Capital	**-**	-
20	Tier 2 Capital (T2)	**37,288**	30,871
21	**Total Capital (TC = T1 + T2)**	**659,694**	491,877
22	Total risk-weighted assets	**3,246,032**	2,704,257
	Capital ratios and buffers		
23	Common Equity Tier 1 (as percentage of risk-weighted assets)	**16.84%**	14.25%
24	Tier 1 (as percentage of risk-weighted assets)	**19.17%**	17.05%
25	Total capital (as percentage of risk-weighted assets)	**20.32%**	18.19%
	National minima		
26	Common Equity Tier 1 minimum ratio including Capital Conservation buffer and D-SIB buffer	**10.00%**	10.00%
27	Tier 1 minimum ratio	**11.50%**	11.50%
28	Total capital minimum ratio excluding CCY	**13.50%**	13.50%

14. OTHER DISCLOSURES (CONTINUED)

14.2 Leverage Ratio: Common Disclosure Template

Table 26

	Item	2019 KD '000s	2018 KD '000s
	On-balance sheet exposures		
1	On-balance sheet items (excluding Sharia compliant hedging contracts, but including collaterals)	**5,300,548**	4,344,778
2	(Asset amounts deducted in determining Basel III Tier 1 Capital)	**-**	(2,622)
3	**Total on-balance sheet exposures (excluding Sharia compliant hedging contracts) (sum of lines 1 and 2)**	**5,300,548**	4,342,156
	Exposures to Sharia compliant hedging contracts		
4	Replacement cost associated with all Sharia compliant hedging contracts (i.e. net of eligible cash variation margin)	**6,545**	5,675
5	Add-on amounts for potential future exposures "PFE" associated with all Sharia compliant hedging contracts	**5,809**	2,456
6	Gross-up for the collateral of Sharia compliant hedging contracts provided where deducted from the balance sheet assets pursuant to the Bank's accounting policy.	**-**	-
7	(Deductions of receivables assets for cash variation margin provided in with all Sharia compliant hedging contracts)	**-**	-
8	(Bank's exposures to exempted Central counter parties "CCP")	**-**	-
9	**Total exposures of Sharia compliant hedging contracts (sum of lines 4 to 8)**	**12,354**	8,131
	Other off-balance sheet exposures		
10	Off-balance sheet exposure (before any adjustment for credit conversion factors)	**1,430,815**	1,328,296
11	(Adjustments for conversion to credit equivalent amounts)	**(1,168,151)**	(1,071,977)
12	**Off-balance sheet items (sum of lines 10 and 11)**	**262,664**	256,319
	Capital and total exposures		
13	**Tier 1 Capital**	**622,406**	461,006
14	**Total exposures (sum of lines 3, 9,12)**	**5,575,567**	4,606,606
	Leverage ratio		
15	**Leverage ratio (Tier 1 Capital (13)/total exposures (14))**	**11.16%**	10.01%

Report of Shari'a Supervisory Board

Date: 10 Jumada Al-Ula 1441 A.H.
Corresponding to: January 5th 2020

In the Name of Allah, Most Gracious, Most Merciful

Report of the Shari'a Supervisory Board
From 01.01.2019 to 31.12.2019

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.

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 Shari'a Supervisory Board of Boubyan Bank (the "Board"), and to assign us with these duties, we hereby provide you with the following report:

We, at the Shari'a 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 01/01/2019 to 31/12/2019. 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 inspecting 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 1-1-2019 to 31-12-2019, presented to us, have all been concluded as per the rulings and principles of the Noble Islamic Sharia. The Shari'a Supervisory Board has held 15 meetings, and below is the attendance record for the members of the Shari'a Supervisory Board:

Name
1- Sheikh Dr. Abdulaziz Khalifa Al-Qasar
No. of Meetings 15/15
2- Sheikh Dr. Esame Khalaf Al-Enezi
No. of Meetings 15/15
3- Sheikh Dr. Mohammed Awad Al-Fuzaie
No. of Meetings 14/15
4- Sheikh Dr. Ali Ibrahim Al-Rashid
No. of Meetings 14/15

These meetings issued 110 decisions concerning all of the bank's various activities and business, and we invoke the 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

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

بـنـك بـوبـيـان
Boubyan Bank

Consolidated Financial Statements and Independent Auditors’ Report

for the year ended 31 December 2019

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

Report on the Audit of the Consolidated Financial Statements

Opinion
We have audited the consolidated financial statements of Boubyan Bank K.S.C.P (the "Bank") and its subsidiaries (together, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2019, and the related consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs), as adopted for use by the State of Kuwait.

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

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

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

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

Key Audit Matters (continued)

We have identified the following key audit matters:

Credit losses on Islamic financing to customers

The recognition of credit losses on Islamic financing ("credit facilities") to customers is the higher of Expected Credit Loss ("ECL") under International Financial Reporting Standard 9: Financial Instruments ("IFRS 9"), determined in accordance with Central Bank of Kuwait (the "CBK") guidelines, and the provision required by the CBK rules on classification of credit facilities and calculation of their provision ("the CBK rules") as disclosed in the accounting policies and in Note 3.4 to the consolidated financial statements.

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

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

Our audit procedures included assessing the design and implementation of controls over, inputs and assumptions used by the Group in developing the models, its governance and review controls performed by the management in determining the adequacy of credit losses.

With respect to the ECL based on IFRS 9, determined in accordance with the CBK guidelines, we have selected samples of credit facilities outstanding as at the reporting date and checked the appropriateness of the Group's determination of significant increase in credit risk and the resultant basis for classification of the credit facilities into various stages. For a sample of credit facilities, we have checked the appropriateness of the Group's staging criteria, Exposure at Default ("EAD") Probability of Default ("PD") and Loss Given Default ("LGD") including the eligibility and value of collateral considered in the ECL models used by the Group to determine ECL taking into consideration CBK guidelines. We have also checked the consistency of various inputs and assumptions used by the Group's management to determine ECL.

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

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

Key Audit Matters (continued)

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

Other information included in the Group's 2019 Annual Report
Management is responsible for the other information. Other information consists of the information included in Group's 2019 Annual Report, other than the consolidated financial statements and our auditors' report thereon. We obtained the report of the Bank's Board of Directors, prior to the date of our auditor's report, and we expect to obtain the remaining sections of the Group's 2019 Annual Report after the date of our auditor's report.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

Report on Other Legal and Regulatory Requirements
Furthermore, in our opinion proper books of account have been kept by the Bank and the consolidated financial statements, together with the contents of the report of the Bank's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the Central Bank of Kuwait ("CBK") as stipulated in CBK Circular Nos. 2/RB, RBA/336/2014 dated 24 June 2014 and 2/I.B.S. 343/2014 dated 21 October 2014 respectively, the Companies Law No 1 of 2016, as amended, and its executive regulations, as amended, and by the Bank's Memorandum of Incorporation and Articles of Association, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the CBK as stipulated in CBK Circular Nos. 2/RB, RBA /336/2014 dated 24 June 2014 and 2/I.B.S. 343/2014 dated 21 October 2014 respectively, the Companies Law No 1 of 2016, as amended, and its executive regulations, as amended, or of the Bank's Memorandum of Incorporation and Articles of Association, have occurred during the year ended 31 December 2019 that might have had a material effect on the business of the Bank or on its financial position.

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

Report on Other Legal and Regulatory Requirements (continued)

We further report that, during the course of our audit, we have not become aware of any violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the CBK and the organisation of banking business, and its related regulations during the year ended 31 December 2019 that might have had a material effect on the business of the Bank or on its financial position.

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

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

5 January 2020
Kuwait

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2019

	Notes	**2019** KD '000s	2018 KD '000s
Income			
Murabaha and other Islamic financing income	5	**207,629**	182,942
Finance cost and distribution to depositors		**(88,170)**	(62,636)
Net financing income		**119,459**	120,306
Net investment income	6	**4,155**	1,051
Net fees and commission income	7	**16,428**	13,436
Share of results of associates	16	**2,040**	1,917
Net foreign exchange gain		**3,687**	3,011
Operating income		**145,769**	139,721
Staff costs		**(36,094)**	(33,633)
General and administrative expenses		**(17,078)**	(18,834)
Depreciation		**(7,892)**	(4,288)
Operating expenses		**(61,064)**	(56,755)
Operating profit before provision for impairment		**84,705**	82,966
Provision for impairment	8	**(18,711)**	(23,839)
Operating profit before taxation and board of directors' remuneration		**65,994**	59,127
Taxation	9	**(2,867)**	(2,557)
Board of directors' remuneration		**(450)**	(360)
Net profit for the year		**62,677**	56,210
Attributable to:			
Equity holders of the Bank		**62,647**	56,108
Non-controlling interests		**30**	102
Net profit for the year		**62,677**	56,210
Basic and diluted earnings per share attributable to the equity holders of the Bank (fils)	10	**20.40**	19.17

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

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

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	2019 KD '000s	2018 KD '000s
Net profit for the year	**62,677**	56,210
Other comprehensive income/(loss)		
Items that are or may be reclassified to consolidated statement of profit or loss in subsequent periods:		
Change in fair value of debt investments at fair value through other comprehensive income	**6,303**	(454)
Foreign currency translation adjustments	**429**	(641)
Items that will not be reclassified to consolidated statement of profit or loss in subsequent periods:		
Change in fair value of equity investments at fair value through other comprehensive income	**(9,675)**	(660)
Other comprehensive loss for the year	**(2,943)**	(1,755)
Total comprehensive income for the year	**59,734**	54,455
Attributable to:		
Equity holders of the Bank	**59,704**	54,353
Non-controlling interests	**30**	102
Total comprehensive income for the year	**59,734**	54,455

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

Boubyan Bank

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	2019 KD '000s	2018 KD '000s
Assets			
Cash and balances with banks	11	**232,393**	83,805
Deposits with Central Bank of Kuwait		**306,156**	244,685
Deposits with other banks	12	**427,347**	237,088
Islamic financing to customers	13	**3,728,772**	3,262,285
Investment in Sukuk	14	**306,315**	309,339
Other investment securities	14	**101,215**	73,500
Investments in associates	16	**33,144**	28,916
Investment properties	17	**46,555**	24,036
Other assets	18	**32,422**	24,088
Property and equipment		**86,229**	57,036
Total assets		**5,300,548**	4,344,778
Liabilities and Equity			
Liabilities			
Due to banks		**236,480**	97,216
Depositors' accounts		**4,347,226**	3,720,935
Other liabilities	19	**63,661**	40,667
Total liabilities		**4,647,367**	3,858,818
Equity			
Share capital	20	**288,407**	238,847
Share premium	21	**156,942**	62,896
Proposed bonus shares	22	**14,420**	11,942
Treasury shares	23	**(54)**	(643)
Statutory reserve	24	**31,848**	25,251
Other reserves	25	**22,114**	19,165
Retained earnings		**35,817**	31,707
Proposed cash dividends	22	**25,954**	19,092
Equity attributable to equity holders of the Bank		**575,448**	408,257
Perpetual Tier 1 Sukuk	26	**75,388**	75,388
Non-controlling interests		**2,345**	2,315
Total equity		**653,181**	485,960
Total liabilities and equity		**5,300,548**	4,344,778

Mahmoud Yousef Al-Fulaij
Chairman

Adel Abdul Wahab Al Majed
Vice Chairman & Chief Executive Officer

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Share capital	Share premium	Proposed bonus shares	Treasury shares	Statutory reserve	Other reserves (note 25)	Retained earnings	Proposed cash dividends	Equity attributable to equity holders of the Bank	Perpetual Tier 1 Sukuk	Non-controlling interests	Total equity
	KD '000s	KD '000s	KD '000s	KD '000s	KD '000s	KD '000s	KD '000s	KD '000s	KD '000s	KD '000s	KD '000s	KD '000s
Balance at 1 January 2019	238,847	62,896	11,942	(643)	25,251	19,165	31,707	19,092	408,257	75,388	2,315	485,960
Profit for the year	-	-	-	-	-	-	62,647	-	62,647	-	30	62,677
Other comprehensive loss	-	-	-	-	-	(2,943)	-	-	(2,943)	-	-	(2,943)
Total comprehensive (loss) / income for the year	-	-	-	-	-	(2,943)	62,647	-	59,704	-	30	59,734
Increase in share capital (note 20)	37,618	94,046	-	-	-	-	-	-	131,664	-	-	131,664
Cost directly related to increase in Share capital	-	-	-	-	-	-	(108)	-	(108)	-	-	(108)
Transfer of gain on disposal of equity investments at FVOCI to retained earnings	-	-	-	-	-	(4)	4	-	-	-	-	-
Transfer to reserves	-	-	-	-	6,597	6,310	(12,907)	-	-	-	-	-
Issue of bonus shares (note 22)	11,942	-	(11,942)	-	-	-	-	-	-	-	-	-
Cash dividend paid (note 22)	-	-	-	-	-	-	(27)	(19,092)	(19,119)	-	-	(19,119)
Profit paid on Perpetual Tier 1 Sukuk	-	-	-	-	-	-	(5,125)	-	(5,125)	-	-	(5,125)
Proposed bonus shares (note 22)	-	-	14,420	-	-	-	(14,420)	-	-	-	-	-
Sales of treasury shares	-	-	-	589	-	(414)	-	-	175	-	-	175
Proposed cash dividends (note 22)	-	-	-	-	-	-	(25,954)	25,954	-	-	-	-
Balance at 31 December 2019	288,407	156,942	14,420	(54)	31,848	22,114	35,817	25,954	575,448	75,388	2,345	653,181

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

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

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Notes	2019 KD '000s	2018 KD '000s
OPERATING ACTIVITIES			
Net profit for the year		**62,677**	56,210
Adjustments for:			
Provision for impairment	8	**18,711**	23,839
Depreciation		**7,892**	4,288
Foreign currency translation adjustments		**11,997**	6,456
Unrealised gain from financial assets at fair value through profit or loss		**(1,128)**	(279)
Gain on deemed acquisition in an associate		**(982)**	-
Share of results of associates		**(2,040)**	(1,917)
Dividend income		**(2,405)**	(1,416)
Net unrealized loss from change in fair value of investment properties		**1,074**	1,500
Net gain on sale of investment properties		**(43)**	-
Net gain from sale of investment at fair value through profit or loss		**(85)**	-
Loss on derecognition of investment in associates		**-**	404
Share based payment reserve		**-**	48
Operating profit before changes in operating assets and liabilities		**95,668**	89,133
Changes in operating assets and liabilities:			
Deposits with Central Bank of Kuwait		**97,674**	65,735
Deposits with other banks		**(153,071)**	86,696
Islamic financing to customers		**(484,406)**	(400,346)
Other assets		**(8,334)**	(7,509)
Due to banks		**139,264**	29,742
Depositors' accounts		**626,291**	310,812
Other liabilities		**15,151**	10
Net cash generated from operating activities		**328,237**	174,273
INVESTING ACTIVITIES			
Purchase of investment securities		**(213,602)**	(241,219)
Proceeds from sale/redemption of investment securities		**174,085**	98,583
Dividends received from associates		**83**	202
Purchase of investment in associates		**-**	(36)
Proceeds from sale of investment properties		**3,702**	29,300
Purchase of investment properties		**(27,342)**	(1,296)
Purchase of property and equipment		**(30,085)**	(6,967)
Dividend income received		**2,405**	1,416
Net cash used in investing activities		**(90,754)**	(120,017)
FINANCING ACTIVITES			
Proceeds from increase in share capital		**131,664**	-
Cost directly related to increase in share capital		**(108)**	-
Profit distribution on perpetual Tier 1 Sukuk		**(5,125)**	(5,108)
Proceeds from exercise of share options		**175**	141
Dividends paid		**(19,119)**	(15,900)
Net cash generated from/(used in) financing activities		**107,487**	(20,867)
Net increase in cash and cash equivalents		**344,970**	33,389
Cash and cash equivalents at the beginning of the year		**164,767**	131,378
Cash and cash equivalents at the end of the year	11	**509,737**	164,767

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

1. INCORPORATION AND ACTIVITIES

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

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

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

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

The total number of employees in the Group was **1,728** employees as at 31 December 2019 (1,546 employees as at 31 December 2018).

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

The consolidated financial statements were authorised for issue by the Board of Directors on 5 January 2020 and the shareholders have the power to amend these consolidated financial statements at the annual assembly meeting.

2. BASIS OF PREPARATION

2.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with the regulations for financial services institutions as issued by the Central Bank of Kuwait ("CBK") in the State of Kuwait. These regulations require expected credit loss ("ECL") to be measured at the higher of the ECL on credit facilities computed under IFRS 9 in accordance to the CBK guidelines or the provisions as required by CBK instructions; the consequent impact on related disclosures; and the adoption of all other requirements of International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board ("IASB").

2.2 Basis of measurement

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

2.3 Functional and presentation currency

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

2.4 Changes in accounting policies and disclosures

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the previous year except for the adoption of IFRS 16 Leases, effective from 1 January 2019.

IFRS 16 'Leases'

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model.

Lessor accounting under IFRS 16 is substantially unchanged under IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

2. BASIS OF PREPARATION (CONTINUED)

2.4 Changes in accounting policies and disclosures (continued)

IFRS 16 'Leases' (continued)
Upon adoption of IFRS 16, the Group has recognised right-of-use assets representing the right to use the underlying assets under property and equipment and the corresponding lease liabilities to make lease payments under other liabilities.

a) Nature of the effect of adoption of IFRS 16
Before the adoption of IFRS 16, the Group classified its leases (as lessee) at the inception date as operating lease. In an operating lease, the leased property was not capitalised and the lease payments were recognised as rent expense in profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under other assets and other liabilities, respectively.

Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases that it is the lessee, except for short-term leases and leases of low-value assets. Refer to Note 3.9 Leases – Group as a lessee for the accounting policy beginning 1 January 2019.

Leases previously classified as finance leases
As at 1 January 2019, the Group did not have any lease classified as finance lease.

Leases previously accounted for as operating leases
The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised.

2.5 New standards and interpretations not yet adopted

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

Amendments to IFRS 3: *Definition of a Business*
In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 Business Combinations to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments.

Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to IAS 1 and IAS 8: *Definition of Material*
In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

The amendments to the definition of material is not expected to have a significant impact on the Group's consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Basis of consolidation

The consolidated financial statements comprise the Bank and its principal operating subsidiaries (collectively "the Group") - Boubyan Takaful Insurance Company K.S.C (Closed) and Boubyan Capital Investment Company K.S.C (Closed), as at 31 December 2019 and which are controlled by the Bank as set out in note 15.

3.1.1 Business combinations

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

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

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

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

The Group measures goodwill at the acquisition date as:

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

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

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

3.1.2 Non-controlling interests

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

3.1.3 Subsidiaries

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

3.1.4 Loss of control

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Basis of consolidation (continued)

3.1.5 Investments in associates (equity-accounted investees)

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

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

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

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

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

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

3.1.6 Transactions eliminated on consolidation

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

3.2 Foreign currency

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

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

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

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

3.3 Revenue recognition

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Financial instruments

3.4.1 Financial assets

a) Trade and settlement date accounting

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

b) Recognition and derecognition of financial assets

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

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

c) Classification and Measurement of Financial assets

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

Cash and cash equivalents

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

Deposits with Banks and Islamic financing to customers

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

Murabaha

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

Wakala

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

Leased assets - the Group as a lessor

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

Renegotiated finance facilities

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

Financial assets at FVTPL and FVOCI

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Financial instruments (continued)

3.4.1 Financial assets (continued)

c) Classification and Measurement of Financial assets (continued)

Business model assessment

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

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

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

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

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

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

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

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

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

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

(i) Financial assets measured at amortised cost:

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Financial instruments (continued)

3.4.1 Financial assets (continued)

c) Classification and Measurement of Financial assets (continued)

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

(i) Debt Securities (Sukuk) at FVOCI

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

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

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

(ii) Equity investments at FVOCI

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

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

(iii) Financial assets measured at FVTPL:

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

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

Reclassification of financial assets

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Financial instruments (continued)

3.4.1 Financial assets (continued)

d) Impairment of financial assets

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

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

Equity investments are not subject to Expected Credit Losses.

Impairment of financing facilities

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

Impairment of financial assets other than financing facilities

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

Expected Credit Losses

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

Stage 1: 12-months ECL

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

Stage 2: Lifetime ECL – not credit impaired

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

Stage 3: Lifetime ECL – credit impaired

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

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

Determining the stage for impairment

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Financial instruments (continued)

3.4.1 Financial assets (continued)

d) Impairment of financial assets (continued)

Expected Credit Losses (continued)

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Financial instruments (continued)

3.4.1 Financial assets (continued)

d) Impairment of financial assets (continued)

Expected Credit Losses (continued)

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

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

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

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

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

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

3.4.2 Financial liabilities
All financial liabilities are recognised initially on the settlement date at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost.
The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.
Financial liabilities comprise due to banks, depositors' accounts and other liabilities.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Financial instruments (continued)

3.4.2 Financial liabilities (continued)

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

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

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

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

3.4.3 Offsetting

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

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

3.5 Fair values

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

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

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

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

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

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

3.6 Derivatives

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 Investment properties

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

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

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

3.8 Property and equipment

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

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

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

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

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

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

3.9 Leases – Group as a lessee

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

Policy applicable from 1 January 2019

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

a) Right-of-use assets

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

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

b) Lease liabilities

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9 Leases – Group as a lessee (continued)

Policy applicable from 1 January 2019 (continued)

b) Lease liabilities (continued)

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

Policy applicable before 1 January 2019

Operating lease payments are recognised as an expense in the consolidated statement of profit or loss on a straight-line basis over the lease term. Contingent rental payable is recognised as an expense in the period in which they are incurred.

3.10 Impairment of non- financial assets

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

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

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

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

3.11 Provisions

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

3.12 Contingent liabilities and contingent assets

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

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

3.13 Share based payment

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.14 Segment reporting

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

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

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

3.15 Treasury shares

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

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

3.16 Post-employment benefits

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

3.17 Kuwait Foundation for the Advancement of Sciences (KFAS)

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

3.18 National Labour Support Tax (NLST)

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

3.19 Zakat

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

3.20 Financial guarantees

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

3.21 Fiduciary assets

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

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

4.1 Critical judgments in applying the Group's accounting policies

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

Fair value hierarchy

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

Impairment of investment in associates

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

Classification of financial assets

The Group determines the classification of financial assets based on the assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and profit on the principal amount outstanding. Judgments are required in determining the business model at an appropriate level that best reflects an aggregated group or portfolio of assets which are managed together to achieve a particular business objective. The Group also applies judgment to assess if there is a change in business model in circumstances when the assets within that business model are realised differently than the original expectations. Refer to Note 3.4 classification of financial assets for more information.

Determining the lease term of contracts with renewal and termination options - Group as lessee

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases to lease the assets for additional terms. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

4.2 Key sources of estimation uncertainty

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

Expected Credit Losses on financial assets

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

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

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

Impairment losses on Islamic finance facilities

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

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

4.2 Key sources of estimation uncertainty (continued)

Impairment losses on Islamic finance facilities (continued)
Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions.

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

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

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

5. MURABAHA AND OTHER ISLAMIC FINANCING INCOME

Islamic financing income includes financing income from Islamic financing to customers of **KD 195,238 thousand** (2018: KD 173,954 thousand) and income from Sukuks of **KD 12,391 thousand** (2018: KD 8,988 thousand).

6. NET INVESTMENT INCOME

	2019	2018
	KD '000s	KD '000s
Dividend income	**2,405**	1,416
Net rental income from investment properties	**417**	733
Net gain from financial assets at FVTPL	**1,213**	768
Net gain from sale of debt investments at FVOCI	**169**	38
Gain on deemed acquisition in an associate	**982**	-
Loss on derecognition of investment in associates	**-**	(404)
Unrealized loss from changes in fair value of investment properties	**(1,074)**	(1,500)
Net gain on sale of investment properties	**43**	-
	4,155	1,051

7. NET FEES AND COMMISSION INCOME

	2019	2018
	KD '000s	KD '000s
Gross fees and commission income	**24,625**	19,962
Fees and commission expenses	**(8,197)**	(6,526)
	16,428	13,436

8. PROVISION FOR IMPAIRMENT

	2019	2018
	KD '000s	KD '000s
Provision for impairment of Islamic financing to customers	**17,432**	15,053
ECL – Other financial assets	**716**	344
Impairment loss on investments in associates	**-**	8,442
Impairment loss on other assets	**563**	-
	18,711	23,839

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

	Specific	General	Total
	KD '000s	KD '000s	KD '000s
Balance at 1 January 2018	7,715	52,556	60,271
Provided during the year	14,717	336	15,053
Recovery of written off balances	603	-	603
Written off balances during the year	(4,710)	-	(4,710)
Balance at 31 December 2018	18,325	52,892	71,217
Provided during the year	**13,589**	**3,843**	**17,432**
Recovery of written off balances	**1,287**	**-**	**1,287**
Written off balances during the year	**(20,725)**	**-**	**(20,725)**
Balance at 31 December 2019	**12,476**	**56,735**	**69,211**

8. PROVISION FOR IMPAIRMENT (CONTINUED)

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

	Islamic finance to customers KD '000s	Non-cash facilities KD '000s	Total KD '000s
Balance at 1 January 2018	58,301	1,970	60,271
Provided during the year	14,293	760	15,053
Recovery of written off balances	603	-	603
Written off balances during the year	(4,710)	-	(4,710)
Balance at 31 December 2018	68,487	2,730	71,217
Provided during the year	**16,775**	**657**	**17,432**
Recovery of written off balances	**1,287**	**-**	**1,287**
Written off balances during the year	**(19,928)**	**(797)**	**(20,725)**
Balance at 31 December 2019	**66,621**	**2,590**	**69,211**

At 31 December 2019, non-performing finance facilities amounted to **KD 20,409 thousand**, net of provision of **KD 12,476 thousand** (2018: KD 9,983 thousand, net of provision of KD 18,325 thousand). The analysis of specific and general provision stated above is based on Central Bank of Kuwait's instructions.

9. TAXATION

	2019 KD '000s	2018 KD '000s
Contribution to Kuwait Foundation for the Advancement of Sciences ("KFAS")	**591**	525
National Labour Support Tax ("NLST")	**1,630**	1,455
Zakat (Based on Zakat law no: 46/2006)	**646**	577
	2,867	2,557

10. BASIC AND DILUTED EARNING PER SHARE

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

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

	2019	2018
Net profit for the year attributable to the equity holders of the Bank (KD '000s)	**62,647**	56,108
Less: profit payment on Perpetual Tier 1 Sukuk (KD '000s)	**(5,125)**	(5,108)
	57,522	51,000
Weighted average number of shares outstanding during the year (thousands of shares)	**2,819,723**	2,659,898
Basic and diluted earnings per share attributable to the equity holders of the Bank (fils)	**20.40**	19.17

Earnings per share for the year ended 2018 was 21.37 fils per share before retroactive adjustment to the number of shares following the bonus issue (see note 22).

11. CASH AND CASH EQUIVALENTS

	2019 KD '000s	2018 KD '000s
Cash and balances with banks	**232,393**	83,805
Placement with banks maturing within seven days	**277,344**	80,962
	509,737	164,767

بنك بوبيان
Boubyan Bank

12. DEPOSITS WITH OTHER BANKS

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

	2019	2018
	KD '000s	KD '000s
Kuwait & Middle East	**361,931**	219,059
Europe	**65,516**	18,088
	427,447	237,147
Less: Expected credit losses (ECL)	**(100)**	(59)
	427,347	237,088

13. ISLAMIC FINANCING TO CUSTOMERS

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

	Kuwait & Middle East	**Africa**	**Asia**	**Total**
	KD '000s	**KD '000s**	**KD '000s**	**KD '000s**
2019				
Corporate banking	**2,137,575**	**7,654**	**-**	**2,145,229**
Consumer banking	**1,650,164**	**-**	**-**	**1,650,164**
	3,787,739	**7,654**	**-**	**3,795,393**
Less: provision for impairment	**(66,544)**	**(77)**	**-**	**(66,621)**
	3,721,195	**7,577**	**-**	**3,728,772**
2018				
Corporate banking	1,838,474	-	728	1,839,202
Consumer banking	1,491,570	-	-	1,491,570
	3,330,044	-	728	3,330,772
Less: provision for impairment	(67,972)	-	(515)	(68,487)
	3,262,072	-	213	3,262,285

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

	Specific		General		Total	
	2019	2018	**2019**	2018	**2019**	2018
	KD '000s	KD '000s	**KD '000s**	KD '000s	**KD '000s**	KD '000s
Balance at beginning of the year	**17,781**	7,715	**50,706**	50,586	**68,487**	58,301
Provided during the year	**13,007**	14,173	**3,768**	120	**16,775**	14,293
Recovery of written off balances	**1,287**	603	**-**	-	**1,287**	603
Written off balances during the year	**(19,928)**	(4,710)	**-**	-	**(19,928)**	(4,710)
Balance at end of the year	**12,147**	17,781	**54,474**	50,706	**66,621**	68,487

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

	Corporate banking		Consumer banking		Total	
	2019	2018	**2019**	2018	**2019**	2018
	KD '000s	KD '000s	**KD '000s**	KD '000s	**KD '000s**	KD '000s
Balance at beginning of the year	**7,576**	1,176	**10,205**	6,539	**17,781**	7,715
Provided during the year	**9,034**	10,861	**3,973**	3,312	**13,007**	14,173
Recovery of written off balances	**345**	237	**942**	366	**1,287**	603
Written off balances during the year	**(8,170)**	(4,698)	**(11,758)**	(12)	**(19,928)**	(4,710)
Balance at end of the year	**8,785**	7,576	**3,362**	10,205	**12,147**	17,781

13. ISLAMIC FINANCING TO CUSTOMERS (CONTINUED)

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

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

	2019	2018
	KD '000s	KD '000s
Islamic financing to customers	**32,885**	28,308
Specific provision for impairment	**(12,476)**	(18,325)
	20,409	9,983

At 31 December 2019, management estimates the fair value of collaterals held against individually impaired Islamic finance facilities to be **KD 24,544 thousand** (2018: KD 1,939 thousand).

The ECL for Islamic financing as at 31 December 2019 is **KD 53,981 thousand** (2018: KD 49,914 thousand) which is lower than the provision for impairment of Islamic finance to customers required by CBK.

14. INVESTMENT SECURITIES

	2019	2018
	KD '000s	KD '000s
Investment in Sukuk - FVOCI	**306,315**	309,339
Financial assets at fair value through profit or loss	**80,440**	42,760
Financial assets at fair value through other comprehensive income	**20,775**	30,740
	407,530	382,839

	2019	2018
	KD '000s	KD '000s
Financial assets at fair value through profit or loss		
Investment in unquoted equity funds	**80,440**	42,760
	80,440	42,760

	2019	2018
	KD '000s	KD '000s
Financial assets at fair value through other comprehensive income		
Investment in unquoted equity securities	**20,624**	30,574
Investment in quoted equity securities	**151**	166
	20,775	30,740

15. SUBSIDIARIES

Principal operating subsidiaries are as follows:

Name of subsidiary	Country of incorporation	Principal activity	**2019**	2018
			% Effective ownership	
Boubyan Takaful Insurance Company K.S.C. (Closed)	Kuwait	Takaful insurance	**79.49**	79.49
Boubyan Capital Investment Company K.S.C. (Closed)	Kuwait	Islamic investments	**99.95**	99.76

16. INVESTMENTS IN ASSOCIATES

Name of associate	Country of incorporation	Principal activity	2019	2018
			% Effective ownership	
Bank of London and the Middle East ("BLME")	United Kingdom	Islamic Banking	**27.91**	26.44
United Capital Bank	Republic of Sudan	Islamic Banking	**21.67**	21.67
Saudi Projects Holding Group	Kuwait	Real Estate	**25.02**	25.02

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

	2019 KD '000s	2018 KD '000s
Total assets	**557,493**	428,435
Total liabilities	**(461,166)**	(335,906)
Net assets	**96,327**	92,529
Group's share of net assets	**26,889**	24,465

	2019 KD '000s	2018 KD '000s
Total revenue	**18,881**	11,375
Net profit	**3,850**	4,111
Group's share of results	**973**	1,250

17. INVESTMENT PROPERTIES

The movement in the investment properties is as follows:

	2019 KD '000s	2018 KD '000s
Balance at the beginning of the year	**24,036**	53,572
Additions during the year	**27,342**	1,437
Disposals during the year	**(3,659)**	(29,300)
Net unrealized loss from change in fair value of investment properties	**(1,074)**	(1,500)
Foreign currency translation adjustments	**(90)**	(173)
Balance at the ending of the year	**46,555**	24,036

The fair values were determined based on market approach. There has been no change to the valuation techniques during the year. All of the Group's investment properties are included in Level 2 of fair value hierarchy as at 31 December 2019.

18. OTHER ASSETS

	2019 KD '000s	2018 KD '000s
Accrued income	**3,096**	3,768
Prepayments	**3,196**	5,708
Others	**26,130**	14,612
	32,422	24,088

19. OTHER LIABILITIES

	2019	2018
	KD '000s	KD '000s
Creditors and accruals	**13,679**	11,568
Accrued staff benefits	**9,141**	8,225
Post Employment Benefit	**8,970**	7,802
General provision on non-cash facilities	**2,590**	2,730
Others	**29,281**	10,342
	63,661	40,667

Post-Employment Benefit

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

20. SHARE CAPITAL

	2019		2018	
	Shares	**KD '000s**	Shares	KD '000s
Shares authorised, issued and paid up of 100 fils each comprised of 2,764,655,880 shares (2018: 2,274,734,860 shares) fully paid in cash and 119,423,580 shares (2018: 113,736,743 shares) issued as bonus shares during the year.	**2,884,079,460**	**288,407**	2,388,471,603	238,847

During the year, after obtaining necessary approvals, the Bank increased its share capital through the rights issue of **376,184,277** shares, each with a nominal value of 100 fils and premium of 250 fils. The rights issue has been fully subscribed resulting in an increase in share capital of **KD 37,618** thousand and share premium of **KD 94,046** thousand.

21. SHARE PREMIUM

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

22. DIVIDEND

The Annual General Assembly meeting of the shareholders held on 10 March 2019 approved 5% bonus shares (2017: 5%) and a cash dividend of 8 fils per share (2017: 7 fils per share) for the year ended 31 December 2018. The bonus shares increased the number of issued and fully paid up shares by 119,423,580 shares (2017: 113,736,743 shares) and increase in share capital by KD 11,942 thousand (2017: KD 11,374 thousand).

The board of directors recommended distribution of cash dividends of **9 fils** per share (2018: 8 fils) and bonus shares of **5%** (2018: 5%) for the year ended 31 December 2019. The proposed dividends, if approved by the shareholders' general assembly, shall be payable to the shareholders after obtaining the necessary regulatory approvals.

23. TREASURY SHARES

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

	2019	2018
Number of treasury shares	**331,112**	2,027,659
Treasury shares as a percentage of total issued shares - %	**0.01148%**	0.0849%
Cost of treasury shares (KD '000s)	**54**	643
Market value of treasury shares (KD '000s)	**212**	1,135
Weighted average of market value per share (fils)	**0.578**	0.508

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

24. STATUTORY RESERVE

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

25. OTHER RESERVES

	Voluntary reserve	Share based payment reserve	Fair value reserve	Foreign currency translation reserve	Total
	KD '000s	KD '000s	KD '000s	KD '000s	KD '000s
Balance at 1 January 2019	**24,158**	**1,381**	**3,543**	**(9,917)**	**19,165**
Other comprehensive loss	**-**	**-**	**(3,372)**	**429**	**(2,943)**
Total comprehensive loss for the year	**-**	**-**	**(3,372)**	**429**	**(2,943)**
Transfer of gain on disposal of equity investments at FVOCI to retained earnings	**-**	**-**	**(4)**	**-**	**(4)**
Transfer to reserves	**6,310**	**-**	**-**	**-**	**6,310**
Sales of treasury shares	**-**	**(414)**	**-**	**-**	**(414)**
Balance at 31 December 2019	**30,468**	**967**	**167**	**(9,488)**	**22,114**

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

Voluntary reserve

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

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

25. OTHER RESERVES (CONTINUED)

Share based payment reserve

The Bank currently does not operate an equity settled share based compensation plan.

No options were granted during the year. In 2018, the weighted average remaining life of the share options was **360 days** and the weighted average fair value of share options granted was **348 fils**.

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

	2019 Number of share options	2018 Number of share options
Outstanding at 1 January	**1,758,501**	3,341,369
Granted during the year	**-**	-
Cancelled during the year	**(14,084)**	(164,092)
Exercised during the year	**(1,744,417)**	(1,418,776)
Outstanding at 31 December	**-**	1,758,501

The expense accrued on account of share based compensation plans for the year amounts to **KD Nil** (2018: KD 48 thousand) and is included under staff costs in the consolidated statement of profit or loss. During the year certain employees have exercised their stock options of **1,744 thousand shares** (2018: 1,419 thousands shares) and these shares have been issued from treasury shares held by the Bank.

26. PERPETUAL TIER 1 SUKUK

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

The net proceeds of Tier 1 Sukuk are invested by way of Mudaraba with the Bank (as Mudareb) on an unrestricted co-mingling basis, by the Bank in its general business activities carried out through the general Mudaraba pool. Tier 1 Sukuk bears an expected profit rate of 6.75% per annum to be paid semi-annually in arrears until the First Call Date. After that, the expected profit rate will be reset based on then prevailing 5 years U.S Mid Swap Rate plus initial margin of 5.588% per annum.

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

27. RELATED PARTY TRANSACTIONS

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

	Number of board member or executive officers		Number of related parties			
	2019	2018	**2019**	2018	**2019**	2018
					KD '000s	KD '000s
Islamic financing to customers	**7**	7	**1**	2	**14,469**	5,157
Depositors' accounts	**5**	5	**12**	9	**3,801**	3,028
Murabaha and other Islamic financing income					**459**	231
Finance cost and distribution to depositors					**(98)**	(87)
Parent Company						
Due from banks					**181,080**	43,139
Due to banks					**5,735**	59,140
Murabaha and other Islamic financing income					**1,405**	1,617
Finance cost and distribution to depositors					**(1,170)**	(664)

The Group holds collaterals against Islamic finance facilities to related parties in the form of shares and real estate. An estimate of the fair value of collaterals held against Islamic finance facilities to related parties amounted to **KD 5,500 thousand** as at 31 December 2019 (2018: KD 21,649 thousand).

Compensation of key management personnel:
Details of compensation for key management comprise the following:

	2019	2018
	KD '000s	KD '000s
Short-term benefits	**2,198**	2,061
Post-employment benefits	**413**	364
Share based compensation	**611**	580
	3,222	3,005

28. CONTINGENCIES AND COMMITMENTS

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

	2019	2018
	KD '000s	KD '000s
Guarantees	**271,839**	264,940
Acceptances and letters of credit	**90,184**	91,632
Other commitments	**2,032**	9,278
	364,055	365,850

29. SEGMENT REPORTING

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

Business Segments

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

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

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

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

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

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

	Consumer banking	Corporate banking	Investment banking	Treasury	Group centre	Total
2019	**KD '000s**	**KD '000s**	**KD '000s**	**KD '000s**	**KD '000s**	**KD '000s**
Net financing income/(loss)	**67,590**	**35,542**	**(3,543)**	**5,859**	**14,011**	**119,459**
Share of results of associates	**-**	**-**	**2,040**	**-**	**-**	**2,040**
Operating income	**74,551**	**43,929**	**9,609**	**9,533**	**8,147**	**145,769**
Depreciation	**(4,999)**	**(282)**	**(85)**	**(42)**	**(2,484)**	**(7,892)**
Net profit/(loss) for the year	**36,261**	**28,080**	**5,059**	**8,943**	**(15,666)**	**62,677**
Total assets	**1,652,215**	**2,562,670**	**217,281**	**825,652**	**42,730**	**5,300,548**
Total liabilities	**2,337,346**	**364,021**	**62,495**	**1,873,566**	**9,939**	**4,647,367**
2018						
Net financing income	64,924	36,858	(2,896)	11,350	10,070	120,306
Share of results of associates	-	-	1,917	-	-	1,917
Operating income/(loss)	71,525	44,503	4,248	14,361	5,084	139,721
Depreciation	(2,550)	(87)	(64)	(28)	(1,559)	(4,288)
Net profit/(loss) for the year	38,078	31,827	(8,044)	13,803	(19,454)	56,210
Total assets	1,489,285	2,216,460	152,848	460,078	26,107	4,344,778
Total liabilities	1,991,298	219,032	16,040	1,616,832	15,616	3,858,818

Geographical segment

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

	Middle East & North Africa	North America	Europe	Asia	Total
	KD '000s	**KD '000s**	**KD '000s**	**KD '000s**	**KD '000s**
2019					
Assets	**5,117,953**	**19,342**	**130,057**	**33,196**	**5,300,548**
Non-current assets (excluding financial instruments)	**138,367**	**26,208**	**4,180**	**29,595**	**198,350**
Liabilities and equity	**5,299,350**	**-**	**1,188**	**10**	**5,300,548**
Segment income	**141,299**	**209**	**4,257**	**4**	**145,769**
2018					
Assets	4,143,391	4,007	74,813	122,567	4,344,778
Non-current assets (excluding financial instruments)	101,982	-	5,482	26,613	134,077
Liabilities and equity	4,344,144	66	558	10	4,344,778
Segment income	134,743	2	2,691	2,285	139,721

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

30.1 Introduction and overview

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

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

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

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

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

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

30.2 Credit risk

30.2.1 Assessment of expected credit losses

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

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

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

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

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

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

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

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.2 Credit risk (continued)

30.2.1 Assessment of expected credit losses (continued)

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

Significant increase in credit risk

The Group continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12 months ECL or life time ECL, the Group assess whether there has been a significant increase in credit risk of the asset. The quantitative criteria used to determine a significant increase in credit risk is a series of relative and absolute thresholds which are subjected to bank's internal policies and regulatory thresholds.

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

Measurement of ECLs

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

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

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

Incorporation of forward-looking information

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

Internal rating and PD estimation process

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

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.2 Credit risk (continued)

30.2.1 Assessment of expected credit losses (continued)

Internal rating and PD estimation process (continued)

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

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

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

Exposure at default

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

Loss given default

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

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

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

	2019		2018	
	Gross exposure KD'000's	**Net exposure KD'000's**	Gross exposure KD'000's	Net exposure KD'000's
Islamic financing to customers	**3,728,772**	**2,507,345**	3,262,285	2,153,771
Contingent liabilities and capital commitments	**364,055**	**354,138**	365,850	353,931

Collateral and other credit enhancements

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

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.2 Credit risk (continued)

30.2.3 Risk Concentration of the maximum exposure to credit risk

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

Credit risk can also arise due to a significant concentration of Group's assets to any single counterparty. This risk is managed by diversification of the portfolio. The 20 largest facilities outstanding as a percentage of gross facilities as at 31 December 2019 are **24.19%** (2018: 23.40%).

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

	Middle East & North Africa	**North America**	**Europe**	**Asia**	**Total**
	KD'000's	**KD'000's**	**KD'000's**	**KD'000's**	**KD'000's**
2019					
Balances with banks	**168,932**	**22,123**	**2,218**	**181**	**193,454**
Deposits with Central Bank of Kuwait	**306,156**	**-**	**-**	**-**	**306,156**
Deposits with other banks	**361,831**	**-**	**65,516**	**-**	**427,347**
Islamic financing to customers	**3,728,772**	**-**	**-**	**-**	**3,728,772**
Investment in Sukuk	**280,386**	**-**	**-**	**25,929**	**306,315**
Other assets (excluding accrued income and prepayments)	**26,130**	**-**	**-**	**-**	**26,130**
	4,872,207	**22,123**	**67,734**	**26,110**	**4,988,174**
Contingent liabilities	**356,089**	**-**	**1,090**	**4,844**	**362,023**
Commitments	**2,032**	**-**	**-**	**-**	**2,032**
Total credit risk exposure	**5,230,328**	**22,123**	**68,824**	**30,954**	**5,352,229**

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

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.2 Credit risk (continued)

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

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

	2019	2018
	KD'000's	KD'000's
Trading	**113,502**	115,257
Manufacturing	**210,831**	166,755
Banking and other financial institutions	**699,339**	519,717
Construction	**66,439**	62,856
Real Estate	**1,011,541**	899,883
Retail	**1,565,183**	1,423,554
Government	**615,021**	397,644
Others	**706,318**	532,610
	4,988,174	4,118,276

30.2.4 Credit quality per class of financial assets

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

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

	Neither past due nor impaired		**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	**427,347**	**-**	**-**	**427,347**
Islamic financing to customers	**3,457,093**	**263,911**	**74,389**	**3,795,393**
Investment in Sukuk	**306,315**	**-**	**-**	**306,315**
Other assets (excluding accrued income and prepayment)	**26,130**	**-**	**-**	**26,130**
	4,716,495	**263,911**	**74,389**	**5,054,795**

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

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.2 Credit risk (continued)

30.2.4 Credit quality per class of financial assets (continued)

Ageing analysis of past due or impaired financial assets:

	Corporate banking		Consumer banking		Total	
	Past due and not impaired KD'000's	Past due and impaired KD'000's	Past due and not impaired KD'000's	Past due and impaired KD'000's	Past due and not impaired KD'000's	Past due and impaired KD'000's
2019						
Up to 30 days	**6,039**	**22,809**	**14,230**	**13**	**20,269**	**22,822**
31 – 60 days	**9,621**	**-**	**4,738**	**-**	**14,359**	**-**
61 – 90 days	**3,455**	**-**	**3,420**	**2**	**6,875**	**2**
91 – 180 days	**-**	**1**	**-**	**5,378**	**-**	**5,379**
More than 180 days	**-**	**868**	**-**	**3,815**	**-**	**4,683**
	19,115	**23,678**	**22,388**	**9,208**	**41,503**	**32,886**
2018						
Up to 30 days	8,089	5,090	16,499	33	24,588	5,123
31 – 60 days	4,179	15	4,936	10	9,115	25
61 – 90 days	4,090	86	3,230	15	7,320	101
91 – 180 days	-	3,473	-	4,680	-	8,153
More than 180 days	-	4,516	-	10,390	-	14,906
	16,358	13,180	24,665	15,128	41,023	28,308

At 31 December 2019 management estimates the fair value of collaterals held against individually past due or impaired Islamic finance facilities to KD **32,417 thousand** (2018: KD 6,819 thousand).

30.3 Market risk

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

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

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

30.4 Foreign currency risk

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

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

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.4 Foreign currency risk (continued)

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

		2019		2018	
		Effect on profit KD'000's	**Effect on equity KD'000's**	Effect on profit KD'000's	Effect on equity KD'000's
US Dollar	+5	**2,499**	**-**	2,347	-
Sterling Pound	+5	**(150)**	**-**	(68)	-
Euro	+5	**20**	**-**	-	-
Indonesian Rupiah	+5	**-**	**265**	-	755
Sudanese Pound	+5	**16**	**91**	10	38
Japanese Yen	+5	**3**	**-**	2	-
Others	+5	**(2)**	**-**	19	-

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

Equity price risk

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

For such investments classified as FVOCI, a five percent increase in stock prices as at 31 December 2019 would have increased equity by **KD 1,039 thousand** (2018: an increase of KD 1,537 thousand). An equal change in the opposite direction would have had equal, but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

30.5 Liquidity risk

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

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

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.5 Liquidity risk (continued)

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

	Up to three months	**3 to 6 months**	**6 to one year**	**Over 1 year**	**Total**
	KD'000's	**KD'000's**	**KD'000's**	**KD'000's**	**KD'000's**
2019					
Assets					
Cash and balances with banks	**232,393**	**-**	**-**	**-**	**232,393**
Deposits with Central Bank of Kuwait	**226,726**	**63,293**	**16,137**	**-**	**306,156**
Deposits with Banks	**322,267**	**48,510**	**56,570**	**-**	**427,347**
Islamic financing to customers	**1,003,559**	**826,597**	**241,104**	**1,657,512**	**3,728,772**
Investment in sukuk	**250,630**	**-**	**-**	**55,685**	**306,315**
Other investment securities	**-**	**-**	**-**	**101,215**	**101,215**
Investments in associates	**-**	**-**	**-**	**33,144**	**33,144**
Investment properties	**-**	**-**	**-**	**46,555**	**46,555**
Other assets	**26,131**	**-**	**6,291**	**-**	**32,422**
Property and equipment	**-**	**-**	**-**	**86,229**	**86,229**
Total assets	**2,061,706**	**938,400**	**320,102**	**1,980,340**	**5,300,548**
Liabilities and Equity					
Due to banks	**219,372**	**7,078**	**10,030**	**-**	**236,480**
Depositors' accounts	**3,135,604**	**542,904**	**518,387**	**150,331**	**4,347,226**
Other liabilities	**29,281**	**-**	**13,679**	**20,701**	**63,661**
Equity	**-**	**-**	**-**	**653,181**	**653,181**
Total liabilities and equity	**3,384,257**	**549,982**	**542,096**	**824,213**	**5,300,548**

	Up to three months	3 to 6 months	6 to one year	Over 1 year	Total
	KD'000's	KD'000's	KD'000's	KD'000's	KD'000's
2018					
Assets					
Cash and balances with banks	83,805	-	-	-	83,805
Deposits with Central Bank of Kuwait	106,871	95,501	42,313	-	244,685
Deposits with Banks	237,088	-	-	-	237,088
Islamic financing to customers	1,217,734	291,434	217,168	1,535,949	3,262,285
Investment in sukuk	264,962	-	-	44,377	309,339
Other investment securities	-	-	-	73,500	73,500
Investments in associates	-	-	-	28,916	28,916
Investment properties	-	-	-	24,036	24,036
Other assets	14,613	-	9,475	-	24,088
Property and equipment	-	-	-	57,036	57,036
Total assets	1,925,073	386,935	268,956	1,763,814	4,344,778
Liabilities and Equity					
Due to banks	97,216	-	-	-	97,216
Depositors' accounts	2,211,054	418,497	811,616	279,768	3,720,935
Other liabilities	10,342	-	11,568	18,757	40,667
Equity	-	-	-	485,960	485,960
Total liabilities and equity	2,318,612	418,497	823,184	784,485	4,344,778

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.5 Liquidity risk (continued)

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

	Up to three months KD'000's	**3 to 6 months KD'000's**	**6 to one year KD'000's**	**Over 1 year KD'000's**	**Total KD'000's**
2019					
Financial liabilities					
Due to banks	**219,572**	**7,124**	**10,225**	**-**	**236,921**
Depositors' accounts	**3,141,215**	**549,621**	**531,221**	**168,612**	**4,390,669**
	3,360,787	**556,745**	**541,446**	**168,612**	**4,627,590**
Contingent liabilities and capital commitments					
Contingent liabilities	**130,862**	**47,481**	**88,304**	**95,376**	**362,023**
Capital commitments	**-**	**-**	**2,032**	**-**	**2,032**
	130,862	**47,481**	**90,336**	**95,376**	**364,055**

	Up to three months KD'000's	3 to 6 months KD'000's	6 to one year KD'000's	Over 1 year KD'000's	Total KD'000's
2018					
Financial liabilities					
Due to banks	100,899	-	-	-	100,899
Depositors' accounts	2,225,699	426,442	818,616	302,318	3,773,075
	2,326,598	426,442	818,616	302,318	3,873,974
Contingent liabilities and capital commitments					
Contingent liabilities	127,538	46,517	83,335	99,182	356,572
Capital commitments	-	-	9,278	-	9,278
	127,538	46,517	92,613	99,182	365,850

30.6 Profit Rate Risk

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

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

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

30.7 Operational risk

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

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

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

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.8 Fair value of financial instruments

Fair values are obtained from quoted market prices, discounted cash flow models and other models as appropriate. The carrying values of financial instruments are approximate to their fair values as at 31 December 2019 due to relatively short-term maturity of the instruments.

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

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

Fair value hierarchy

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

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

	Level 1	**Level 2**	**Level 3**	**Total**
2019	**KD'000's**	**KD'000's**	**KD'000's**	**KD'000's**
Financial assets at fair value through profit or loss	**-**	**38,578**	**41,862**	**80,440**
Investment in Sukuk – FVOCI	**306,315**	**-**	**-**	**306,315**
Financial assets at fair value through other comprehensive income	**151**	**-**	**20,624**	**20,775**
	306,466	**38,578**	**62,486**	**407,530**
2018				
Financial assets at fair value through profit or loss	-	42,760	-	42,760
Investment in Sukuk – FVOCI	309,339	-	-	309,339
Financial assets at fair value through other comprehensive income	166	-	30,574	30,740
	309,505	42,760	30,574	382,839

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

	At 1 January 2019	**Change in fair value**	**Additions/ transfers**	**Sale/ redemption**	**Exchange rate movements**	**At 31 December 2019**
	KD'000's	**KD'000's**	**KD'000's**	**KD'000's**	**KD'000's**	**KD'000's**
31 December 2019:						
Assets measured at fair value						
Financial assets at fair value through profit or loss	**-**	**171**	**77,110**	**(35,152)**	**(267)**	**41,862**
Financial assets at fair value through other comprehensive income	**30,574**	**(10,320)**	**-**	**(124)**	**494**	**20,624**
	30,574	**(10,149)**	**77,110**	**(35,276)**	**227**	**62,486**

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

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.8 Fair value of financial instruments (continued)

Fair value hierarchy (continued)

The significant unobservable inputs used in the fair value measurement categorised within Level 3 of the fair value hierarchy together with a quantitative sensitivity analysis as at 31 December 2019 are not material.

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

30.9 Capital management

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

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

The Group's regulatory capital and capital adequacy ratios for the years ended 31 December 2019 and 31 December 2018 are calculated in accordance with Central Bank of Kuwait circular number 2/RB, RBA/336/2014 dated 24 June 2014 related to Basel III regulations which are shown below:

	2019	2018
	KD'000's	KD'000's
Risk weighted assets	**3,246,032**	2,704,257
Capital required	**421,984**	365,075
Capital available		
Common Equity Tier 1 Capital	**546,790**	385,348
Additional Tier 1 Capital	**75,616**	75,658
Tier 1 Capital	**622,406**	461,006
Tier 2 Capital	**37,288**	30,871
Total Capital	**659,694**	491,877
Common Equity Tier 1 Capital Adequacy Ratio	**16.84%**	14.25%
Tier 1 Capital Adequacy Ratio	**19.17%**	17.05%
Total Capital Adequacy Ratio	**20.32%**	18.19%

The Group's financial leverage ratio for the year ended 31 December 2019 is calculated in accordance with Central Bank of Kuwait circular number 2/RBA/ 343/2014 dated 21 October 2014 and is shown below:

	2019	2018
	KD'000's	KD'000's
Tier 1 Capital	**622,406**	461,006
Total Exposures	**5,575,567**	4,606,606
Financial Leverage Ratio	**11.16%**	10.01%

The disclosures relating to the capital adequacy regulations issued by Central Bank of Kuwait as stipulated in Central Bank of Kuwait's circular number 2/RB, RBA/336/2014 dated 24 June 2014 and disclosures related to financial leverage ratio as stipulated in Central Bank of Kuwait's circular number 2/RBA/ 343/2014 dated 21 October 2014 for the year ended 31 December 2019 are included under the 'Risk Management' section of the annual report.

31. DERIVATIVES

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

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

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

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

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

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

	2019			2018		
	Positive fair value	**Negative fair value**	**Notional**	Positive fair value	Negative fair value	Notional
	KD '000s	**KD '000s**	**KD '000s**	KD '000s	KD '000s	KD '000s
Profit rate swaps (held as fair value hedges)	**324**	**(12,284)**	**290,235**	3,288	(219)	203,116
Cross currency swaps	**6,220**	**(166)**	**269,399**	-	-	60,800
	6,544	**(12,450)**	**559,634**	3,288	(219)	263,916

32. FIDUCIARY ASSETS

The aggregate value of assets held in a trust or fiduciary capacity by the Group amounted to **KD 348,614 thousand** (2018: KD 237,480 thousand) and the related income from these assets amounted to **KD 2,416 thousand** (2018: KD 1,445 thousand).