بنك بوبيان
Boubyan Bank

# 2021 Annual Report

Towards perfection

In the Name of Allah, Most Gracious, Most Merciful

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

Allah the Almighty speaks the truth

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

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

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

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## Board of Directors

**Abdulaziz Abdullah Dakheel Al-Shaya**
Chairman

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

**Adnan Abdullah Al-Othman**
Director

**Fahad Ahmad Al-Fouzan**
Director

**Hazim Ali Al-Mutairi**
Director

**Mohamed Yousef Al-Saqer**
Director

**Waleed Mishari Al-Hamad**
Director

**Waleed Ibrahim Al-Asfour**
Director

**Waleed Abdullah Al-Houti**
Director

**Imran A. Ali**
Director

**Waleed Humoud Al-Ayadhi**
Director

## Sharia Supervisory Board

**Sheikh Dr.**
**Abdulaziz Khalifa Al-Qasar**
Chairman

**Sheikh Dr.**
**Esame Khalaf Al-Enezi**
Member/Reporter

**Sheikh Dr.**
**Ali Ibrahim Al-Rashid**
Member

**Sheikh Dr.**
**Mohammed Awad Al-Fuzaie**
Member

## Executive Management

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

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

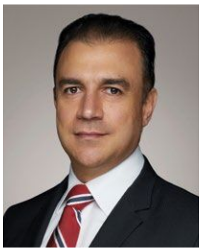
**Abdul-Salam Mohammed Al-Saleh**
Chief Executive Officer
Corporate Banking, Financial Control, Treasury and Legal Affairs

**Waleed Khalid Al-Yaqout**
Group General Manager
Administration Group

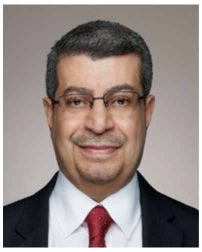
**Adel Abdullah Al-Hammad**
Group General Manager
Human Resources Group

**Abdullah Ahmed Al-Mehri**
Chief Operating Officer

**Abdullah Abdulmohsen Al-Mejhem**
Chief Private Banking
and Acting Chief Consumer Banking



**Ashraf Abdallah Sewilam**
Group General Manager
Corporate Banking Group



**Abdul Rahman Hamza Mansour**
Chief Internal Auditor
Internal Audit Group

**Mohamed Ibrahim Ismail**
Group General Manager
Financial Control Group

**Maged George Fanous**
Chief Risk Officer
Risk Management Group

**Noorah Sulaiman Al-Fassam**
Chief Strategy Officer

**Abdullah Khalifa Al-Nusef**
Chief Data and Information
Technology Officer

**Osama Mohammed Shehab**
Chief Digital Officer

**Adel Rashed Al-Mutairi**
Treasurer
Treasury Group

**Mona Abdullatif Al Duaij**
Chief Compliance Officer

## Chairman's Message

Dear Valued Shareholders and Investors,

On behalf of my fellow Board Directors, the Executive Management, and myself, I am pleased to present the Annual Report of Boubyan Bank Group for the year 2021, which comprises of the financial statements and a highlight of the bank's numerous accomplishments during the past year across all fronts.

Despite the challenges we all faced owing to the ongoing repercussions of the Covid-19 pandemic, we have successfully achieved remarkable accomplishments by the Grace of Almighty Allah, and then thanks to your continuous support, across various fronts, whether in our financial results or by reinforcing our image as one of the Kuwaiti banks known for remarkable services, products and various activities.

## Outstanding Financial Achievements

Thanks to Almighty Allah, we built on our experiences over the past years to continue our outstanding results in 2021, and we aspire for more achievements in 2022 in light of many positive indicators for 2022 supporting that.

At the end of 2021, the Bank recorded KD 48.5 million in net profits at a growth rate of 41%, with an earning per share of 13.57 fils along with a recommendation to distribute 5% in cash dividends and 5% in bonus shares. Moreover, the bank continued its prudential approach by allocating KD 50.8 million in provisions.

All of the Bank's main indicators witnessed a remarkable growth in 2021; the total combined assets of Boubyan Bank Group increased by 14% to reach KD 7.4 billion, and the operating profits increased to KD 100.5 million, thereby growing by 8% compared with last year.

Moreover, the total of customers' deposits grew by 10% to reach KD 5.6 billion, while the financing portfolio grew by 14% to reach KD 5.5 billion, and operating income grew by 12% to reach KD 188 million.

Speaking of the bank's market shares, the bank's share of local financing continued its growth journey in reaching approximately 11% in 2021, compared with 10% at the end of last year, while Boubyan Bank's share of retail finance grew by 14%, compared with 13% as at the end of last year, thereby positioning Boubyan Bank in the third place among local banks in terms of volume of assets and market share.

## Nomo Bank... The World's First Islamic Digital Bank Based in London

In line with the strategic approach aiming to reinforce the global presence of Boubyan Bank with focus on digital banking services, Boubyan Bank managed in 2020 to complete the acquisition of the UK-based Bank of London and The Middle East "BLME", which enabled Boubyan later on in 2021 to launch NOMO Bank, the world's first Islamic Digital Bank based in London. This gave the bank a banking arm acting as a platform to reinforce its customers' base by focusing on wealth-management and digital banking services.

Through the acquisition and expansion, the bank aspires to become the Islamic bank of choice for GCC customers in the United Kingdom as we have incorporated a set of main principles for the bank as a part of its transformation strategy, including having a sustainable customer-focused brand aligned with Boubyan Bank's Group.

## Retail Banking Excellence

As we celebrate our 17th year of success in 2021, this year saw a significant milestone in our journey towards perfection. We have worked hard and with diligence over more than a decade to change the perceived stereotyped image of Islamic banking as being too traditional, and have aimed to project ourselves as a modern Islamic bank, capable of keeping pace with the accelerating developments in the banking scene.

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

## Chairman's Message

### Building and Scaling Boubyan

Being available and ready to serve our customers remains our top priority. Hence, we have further strengthened our customer contact to ensure we are at every touch point with our customer, and we have expanded our branch network and redesigned our branches to serve our customers across the country in addition to redefining and transforming processes to ensure smoother, faster and more seamless customer experience.

As a fruit of our relentless focus on customer service to excel in every product, digital or traditional, every service and every customer interaction, Boubyan Bank remains atop the pyramid of all local banks, be they Islamic or conventional, driven by a customer satisfaction rate of 98%, which qualified us to earn the "Best Islamic Bank in Customer Service Award" for the 11th year in a row from Service Hero.

For 2021 specifically, the Digital Group has transformed itself into becoming a "Distributed Organization" in response to the recent developments, where it now has offices in Egypt and India tapping to larger talents globally. The Digital Group also evolved from a self-service only channel into an assisted-service channel, becoming an indispensable partner to Branch Transformation.

### Corporate Banking… Outstanding Solutions

Attracting companies across various sectors in the local market is one of the most important goals of Boubyan Bank to be achieved through offering a group of outstanding banking services and solutions that meet all the needs of corporate customers. The Corporate Banking Group is keen on developing and improving advanced digital products and services that support and expand the scope of offered services, thereby reinforcing the banking services. Also, SMEs always have the support of Boubyan Bank, leading to the growth of their business by offering them the best banking services and solutions.

Over the past years, the group was already seeking digital transformation when the Covid-19 pandemic highlighted the importance of offering the bank's services and products through advanced digital channels. The group was also keen on staying up-to-date with the development of technological and digital aspects of banking services and products offered to local companies by adding various services which can be performed online or through Boubyan Corporate App.

In 2021, we have also reinforced the bank's internal processes in main areas covering customers' needs, identifying challenges and goals as well as diversifying the services and products launched by the bank through setting an electronic system to organize and facilitate all the services we offer.

### Young and Ambitious Human Resources

Boubyan gives a special attention to its human resources as a part of its business strategy as a modern bank that keeps up with international and regional developments through its young management. The bank is known for giving the youths an outstanding leading role, while providing them with all the training and academic resources that give them an excellent opportunity to gain professional and practical expertise and improve the same at a young age. Moreover, the bank succeeded over the past years in creating many job opportunities for ambitious young Kuwaitis; this was possible due to the bank's expansion in serving its customers through opening up new branches.

This led young Kuwaitis, who are aspiring to work in the private sector in general and the banking sector in particular, to hold our bank in a very prestigious status, especially due to the work environment at the bank and the opportunities it offers, which encourages more creativity and innovation, thus unleashing young and ambitious talents.

Accordingly, the bank succeeded during the year in maintaining a high national manpower ratio that currently stands at 80% approximately, which is not only one of the highest among local banks but also at the level of the Kuwaiti private sector, where the bank stands as an example of successful local manpower recruitment and a creator of excellent job opportunities in the region.

### Our Society.... The Greatest Responsibility

The year 2021 has been no different than the previous one in terms of the state of instability that swept the world and Kuwait owing to the continued concerns and fears arising as a result of the Covid-19 pandemic, which impacted many aspects of life. 2021 witnessed varying swings between reopening at the beginning, followed by partial lockdown, and finally returning to normal life as a result of vaccinating more than 75% of the Kuwaiti population.

Last year represented a milestone in Boubyan Bank's CSR efforts, demonstrated through many events and initiatives highlighting the bank's domestic leadership in the value it adds to the society, thereby confirming the bank's CSR leadership in Kuwait, while focusing on sustainability projects that now represent the cornerstone and main pillar of the bank's projects aiming to achieve better results, especially with regard to the local environment and the impact thereof worldwide.

Boubyan organized many events and initiatives which reiterated its CSR leadership position in Kuwait. This leadership was confirmed whether on the quantitative or qualitative levels in terms of setting targets that aim at confirming the importance of the private sector's contribution to building the Kuwaiti society.

### Continuous Support to CBK's Awareness Efforts

In 2021, Boubyan Bank supported Diraya Campaign emanating from the belief in the significant role played by local banks in spreading awareness about their various activities and banking operations undertook in cooperation with the Central Bank of Kuwait and Kuwait Banking Association. This came out of Boubyan's keenness to increase the level of awareness among customers and non-customers, especially in light of the challenges facing banks due to the developments witnessed in the world across all aspects, which makes the role of banks more important in increasing banking awareness.

This included posting many messages and videos through social media platforms to help increase awareness levels among customers in addition to the various pieces of published news and reports, along with promotion of the campaign in many of the bank's events.

## Chairman's Message

### 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. Our bank selected two independent directors for the Board in the general assembly meeting for the financial year ended December 31st 2020, and following the amendment of the bank's AoA to provide for the selection of a minimum of 4 independent directors in 2021, CBK and sound governance requirements will be applied regarding the selection of independent directors in 2022 as stated.

### Thank You all!

Finally, for myself and on behalf of all Boubyan Bank's employees, I would like to take this opportunity to express deepest thanks, and appreciation to His Highness, the Amir of Kuwait, Sheikh Nawaf Al-Ahmad Al-Jaber Al-Sabah, may Allah protect him as well as to H.H., the Crown Prince, Sheikh Mishal Al-Ahmad Al-Jaber Al-Sabah, and H.H the Prime Minister, Sheikh Sabah Al-Khalid Al-Hamad Al-Sabah, may Allah protect them all. We deeply thank them for all their efforts towards the development and growth of our dear country, and to guarantee stability and security of everyone who considers this blessed land home.

Moreover, I would like to express the deepest thanks to all 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 through their support to confront the challenges. My deepest thanks are also extended to all members of the Bank's Fatwa and Sharia Supervisory Board for their great efforts.

Moreover, I would like to thank my fellow Directors at the Board for their cooperation, commitment, and keenness on supporting the bank to achieve the best interest of the bank and shareholders. My deepest thanks go as well to the professional executive management of the bank which managed, by the Grace of Allah, to achieve remarkable and exceptional results with the support of all the bank's employees across all levels. I would also like to seize this opportunity to thank them for their dedication and huge efforts over the past year and previous years as well, looking forward to maintaining the same level over the years to come for more excellence and achievements.

Peace be with you!

**Mr. Abdulaziz Abdullah Dakheel Al-Shaya**
Chairman

## Management Discussion and Analysis Report



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

# Management Discussion and Analysis Report

## Economic Outlook

### Global Economy

**Global economic recovery ongoing amidst a pandemic**

The 2021 year saw on-going recovery from the pandemic with considerable progress made in the global fight against Covid-19 through vaccination uptake and continued accommodative fiscal policy, with global growth forecast at 5.9% in 2021 and 4.9% in 2022 according to the International Monetary Fund (IMF).

Despite the economic rebound from the 2020 recession lows, the global outlook retains a degree of uncertainty and downside risks, creating a complex landscape for policy makers globally with particular focus on issues spanning inflation, supply chain disruptions, labor market recovery, potential impact of fiscal tightening particularly in debt laden economies, and divergent recoveries between developed and underdeveloped nations. Notwithstanding the depth of the global crisis since the onset of the pandemic, financial stability risks appear contained and financial conditions remained generally supportive.

The US economy rebounded in 2021 with Real GDP growth of a forecast 5.6 percent from the -3.4 percent contraction experienced in 2020 (World Bank). The US economy is expected to slow in 2022 to 3.7 percent as a phase out of fiscal and monetary policy support measures implemented during the pandemic occurs, in addition to the utilisation of excess savings and pent up demand and with an expected alleviation in supply chain bottlenecks. Price pressures from a combination of pent up demand, supply chain disruptions and tight labor market conditions have contributed to inflationary pressure and are making the case for faster than expected withdrawal of monetary support and policy rate tightening by the US Federal Reserve in 2022, which may also damper growth estimates.

The Eurozone GDP grew at an estimated 5.0 - 5.2 percent in 2021 (IMF, World Bank), and is projected to moderate to 4.2 – 4.5 percent in 2022, while in Asia Japan growth was subdued in 2021 at 1.7 percent with growth of approximately 3 percent forecast in 2022 with high vaccination rates paving the way for the relaxation of pandemic related restrictions late in 2021, while China's economic growth was forecasted at 8 percent in 2021 moderating to 5.9 percent in 2022 due to recurring mobility restrictions and regulatory curbs on property and financial sectors reflecting a downturn in the highly leveraged real estate sector weighing upon residential investment, house values and consumer spending.

### Regional Economy

**Regional economy recovery post dual shocks of the pandemic and oil prices**

The 2021 year continued recovery across the Gulf Corporation Council (GCC), following the 2020 year which saw the region faced with a double impact from both the COVID-19 pandemic and lower oil prices, culminating in an estimated contraction of 4.8-5.2 percent in 2020. This was followed by an estimated 2.3-2.5 percent growth in real GDP in 2021 (IMF, World Bank). Non-oil growth of an estimated 3.8 percent in 2021 showed some resiliency in rebounding from the pandemic, however this is muted somewhat by lagging contact-intensive sectors such as hospitality and tourism. Overall regional real GDP growth for 2022 is forecasted at 4.7 percent reflecting improved oil revenues and high vaccination rates across the region.

Oil markets stabilised in 2021 following a sharp decline in 2020, and have continued an upward trend in line with the global recovery, with Brent oil price surpassing its pre-pandemic level by around 14 percent (IMF). In late 2021, OPEC+ decided on boosting oil production through easing of the production cuts placed in 2020. Nevertheless in spite of the recovery seen in 2021, oil markets retain downside risks, particularly demand shocks, if reoccurrences of lockdowns and travel restrictions transpire in case of the emergence of new Covid-19 variants.

Inflation across the GCC is expected to remain contained below 3 percent in 2021 with the individual member countries inflation ranging between 1 and 3 percent. The regional outlook for inflation remains uncertain, although is expected to abate following a rebound in commodity prices from depressed levels during the 2020 pandemic.

### Kuwait Economy

The Kuwait economy rebounded in 2021 with GDP growth forecast at 2 percent from an -8.9 percent contraction in 2020 following the steep decline in oil prices and implementation of pandemic related control measures. The 2021 growth was driven via the phased relaxation of pandemic related control measures and boost in global oil prices, while 2022 growth is forecast to expand to 5 percent (World Bank) with higher estimates reaching 8 percent (S&P) reflecting growth across both the oil and non-oil sectors of the economy.

Structural fiscal reform remain topical with a focus on debt-law reform to support Government fiscal position and liquidity following the utilisation of the Government's General Reserve Fund (GRF) through the pandemic, as well as other fiscal reforms on both the revenue and expenditure fronts, such as VAT, excise and government subsidies.

Inflation is estimated at around 3 percent in 2021, driven by similar factors to those globally, including supply chain disruptions and pent up consumer demand. While the inflation outlook for 2022 is expected to ease, it remains dependent on global factors such as the pace of recovery, disruptions from any resurgence of Covid-19 cases and fiscal measures including monetary tightening.

Domestic credit grew by an estimated 4 percent in 2021 driven by household credit growth of 10 percent which was buoyed by the six-month loan deferral scheme which inflated growth in both 2021 and 2020, while 2022 estimates vary based on the possible introduction of a mortgage law which would boost household lending. Business lending is forecast to grow around 1 percent in 2021 growing to 3 percent in 2022 with the oil/gas sector lending expected to underpin this growth (National Bank of Kuwait).

Kuwait stocks saw positive gains in 2021 outperforming much of the GCC market with growth of 27 percent across all stocks, from an 11.7 percent decline in 2020. Banks in particular led gains with growth of 28 percent during the year reflecting the strong earnings growth in the sector.

### Banking Sector

The 2021 year has seen a strong rebound from the challenging operating environment in 2020 with increased profitability across the sector. The deposit portfolio of the local banks reached approximately KD 49.3 billion by the end of 2021 with a compounded annual growth rate of 3% over the last five years. On the other side, the respective credit portfolio has reached approximately KD 45.3 billion by the end of 2021 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 4 percent in 2021, again buoyed by the impact of the 6 month loan deferral scheme on consumer loans. Excluding the positive impact of any potential mortgage law introduction, the 2022 year forecast to grow 3 percent is driven primarily by a full year resumption of standard consumer loan repayments and business lending given the accommodative monetary policy environment and expected full normalization of business operating conditions.

On the monetary front, The Central Bank of Kuwait ("CBK") maintained its benchmark discount rate at 1.50 percent throughout 2021, after reduction in early 2020 consistent with decreases by US Federal Reserve in response to the emerging COVID 19 pandemic.

Furthermore, in response to the on-going COVID-19 pandemic, the Central Bank undertook a number of measures to enhance the abilities of banks to play a role in the economy. Notably, this included the provision of a six-month moratorium for Kuwait Nationals on consumer finance from March / April 2021 without charging additional profit for the postponement as well as maintaining reduced capital and liquidity requirements for Banks put in place in early 2020 which will phase out by 2023.

### Strategy Highlights

Boubyan Bank is committed to deliver value for its clients, shareholders, employees and society while at the same time generating healthy returns for the investors. The Bank's strategic plan has been developed to sustain its growth in Kuwait through enhanced value propositions of its core businesses in retail and corporate banking. Amid the pandemic, the bank has not only reformed the acceleration of core businesses but has elevated its business through international expansion by successfully launching NOMO, the First Global Islamic Digital Bank, offering Sharia compliant wealth management and banking services in the UK. The Group's strategy is based on two main pillars: (i) the focus on sustainable growth in Kuwait and (ii) the scale up of the Wealth Management value proposition and digital platforms while fortifying against financial and non-financial risks. The strategy aims to maintain the bank's market leadership position and attain our vision by becoming one of the top 5 Islamic banks in the world.

# Management Discussion and Analysis Report

## Steady momentum in our core businesses

The Bank aims to remain well positioned within its core businesses by creating organic top line growth through enhanced value propositions. Boubyan Bank focuses on a great divergence with its ability to deploy a future proof business model that displays key digital characteristics which make them attractive to investors and customers resulting in better asset quality metrics than its Kuwaiti peers. Boubyan has become the third largest bank in terms of total assets in Kuwait and has expanded rapidly by almost tripling its market share in Kuwait over the past years.

Domestically, we continue to achieve our strategic aspiration of sustained growth in Kuwait by continuing to provide the highest levels of customer service while affirming our excellence in digital services. The focus was to develop our product portfolio and services, targeting the core customer segments and was able to reach to the top 15 Islamic banks globally as we have delivered seamless services to the customers evident by the following key achievements:

- A leader amongst all banks in Kuwait with overall highest Customer Satisfaction score of 95% in a very competitive market
- Ranked the first amongst all banks with an overall 'Net Promoter Score' of 69%.
- Ranked 3rd in terms of total assets within the Kuwaiti banking industry in 2021.

## Accelerate the rate of digital adoption

Boubyan has successfully launched the First Islamic Global Digital Bank 'NOMO' which is a Sharia-compliant digital bank incorporated in the UK through its subsidiary Bank of London and the Middle East (BLME) based in the U.K. The Bank intends to accelerate the Digital banking value proposition by reinforcing the digital trend in payments and retail commerce across payment types and remote operation that became a way of working. The Bank has enhanced local digital proposition in corporate and retail banking services. The Bank extended those efforts in wealth management as Boubyan Bank successfully launched Boubyan Invest, a Robo Advisory solution which on boarded more than 1,100 clients in 2021 since its launch. Expanded brokerage services were also introduced as the bank continues to offer diverse investment options for its ever-growing client base.

## Redefining the future of Wealth Management

Furthermore, the Bank carried out the transformation wealth management strategy which was put in place after its acquisition of BLME. Through this, BLME aspires to become a leading UK Islamic wealth management gateway to the GCC customers in conjunction with our investment arm of Boubyan Capital Investment Company.

## The Bank outperformed competitors on key metrics

In terms of market share, Boubyan has continued growing its market share across Assets, Deposits and Financing, with the Bank's personal lending market share improved from 10.6% in 2017 to 14.3% in 2021, again reflecting the continued strength of the Boubyan Franchise. Boubyan Bank continued growing over two times faster than the Kuwaiti Islamic banks in 2021. The Bank's Ratings from Moody's, S&P and Fitch remained stable at A3, A- and A+ respectively. Additionally, the Bank has been awarded the following ranking and excellence in customer service which is a testimony to our outperformance.

- Best Islamic Bank in Customer Service-Service Hero
- Best Islamic Bank in Kuwait 2021- Global Finance
- Best Islamic Digital Bank in Kuwait 2021-Global Finance
- Best Islamic Digital Bank in the Middle East 2021-Global Finance
- Best Islamic Digital Bank Globally 2021-Global Finance
- Best Asset Manager in Kuwait 2021-Boubyan Capital -Global Investor
- Best MENA Wealth Manager 2021-Boubyan Capital -Global Investor

## Providing support to communities

Boubyan Bank has a distinguished touch in leading the social responsibility efforts by launching several social initiatives, supporting activities and events geared towards different segments, especially those with special needs and young people. The Bank is involved in various areas of community service by introducing initiatives that contribute to and affect the development of society. Social responsibility is considered as the center of attention for all employees, from executives to all staff. At the community level also, Boubyan remains as committed as ever in playing a leading role in our society. We are proud to have maintained a national man-power level close to 80%, which is considered to be amongst the highest in the private sector.

## Sustainability approach

In line with best practices in sustainability reporting, Boubyan focused on a range of topics that include, Sustainability and Environmental, Social, and Governance (ESG) aspects which are important to evaluate Boubyan's performance, growth, positioning as leaders in digital banking, integration within our core values and business operational context, and impacts on varied stakeholders. Boubyan bank has released the first Sustainability Report in 2021 titled: "Sustainability – a Gene and Core Value" which is aligned with national and international directions, including UN Sustainable Development Goals (SDGs) and the Kuwait National Development Plan (KNDP), among others.

## Financial Highlights

KD '000s

| | 2021 | 2020 | 2019 |
|---|---|---|---|
| **Financial performance** | | | |
| Net financing income | 157,507 | 138,889 | 119,459 |
| Operating income | 187,781 | 167,482 | 145,769 |
| Operating profit before provision for impairment | 100,543 | 93,085 | 84,705 |
| Net profit attributable to Equity holders of the Bank | 48,494 | 34,421 | 62,647 |
| Earnings per share – fils (restated) | 13.6 | 9.2 | 19.4 |
| **Financial position** | | | |
| Total assets | 7,351,899 | 6,437,149 | 5,300,548 |
| Financing receivables | 5,513,074 | 4,823,266 | 3,826,073 |
| Investments | 676,834 | 673,361 | 487,229 |
| Total depositors' accounts | 5,618,787 | 5,107,728 | 4,347,226 |
| Total shareholders' equity | 563,537 | 517,860 | 575,448 |
| **Key performance ratios** | | | |
| Return on average assets | 0.7% | 0.6% | 1.3% |
| Return on average shareholders' equity* | 7.8% | 5.3% | 11.7% |
| Cost-income ratio | 46.5% | 44.4% | 41.9% |
| Non-performing financing ratio | 0.9% | 1.1% | 0.9% |
| Provision coverage ratio | 320% | 234% | 211% |
| **Capital Ratios** | | | |
| Capital Adequacy Ratio | 16.4% | 16.9% | 20.3% |
| Tier 1 Ratio | 15.2% | 15.6% | 19.2% |
| CET 1 Ratio | 12.0% | 13.7% | 16.8% |
| Leverage ratio | 9.4% | 9.4% | 11.2% |

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

For the year ended December 31, 2021, net profit attributable to Equity holders of the Bank increased by 41% to KD 48.5 Million, or 13.57 fils per share, from KD 34.4 Million, or 9.2 fils per share, in 2020. This increase is primarily attributable to the growth in operating profit of 8% and lower level of precautionary provisions.

Operating income increased by 12% in 2021 to KD 187.8 Million compared to KD 167.5 Million in 2020. This increase in 2021 was mainly driven by the Bank's growth across core income in both net financing and fees income as well as higher investment income. Net financing income increased by 13% to KD 157.5 Million compared to KD 138.9 Million in 2020 for the most part by the growth in the Banks financing portfolio of 14%.

The Bank's profit margin of 2.4% was stable in 2021 following the 2020 year which saw high fluctuations in profit rates both locally and internationally.

Net investment income grew by KD 2.0 Million or 29% while net fee income increased by KD 4.5 Million; an increase of 37% both reflecting improved market conditions post pandemic.

Operating expenses increased by 17% to KD 87.2 Million, compared to KD 74.4 Million in 2020, driven primarily by the investment in the international operations, notably the launch of Nomo Bank in mid-2021 along with general increases in investment in digital technology, new branches and resumption of some expenditure categories otherwise moderated during the period of the 2020 pandemic.

Provision for impairment decreased by 14% to KD 50.8 Million, reflecting a lower level of precautionary provisioning adopted in 2021 given to the on-going recovery seen in the global economy. The non-performing financing ratio decreased to reach 0.9% returning to the pre-pandemic level and remains one of the lowest in the market, along with high loss coverage ratio of 320%.

Total assets grew by 14% in 2021 to reach KD 7.4 Billion. The growth was primarily driven by the continued organic growth in the Banks' financing portfolio and investments. In total, the financing portfolio grew by 14% in 2021 to reach KD 5.5 Billion. Consumer and corporate financing portfolios grew by 27% and 8% respectively in 2021. Credit facilities growth was mainly from resident customers.

During 2021, customer deposits grew by 10% to reach KD 5.6 Billion with growth heavily driven by the Bank's domestic retail franchise.
The Bank remains well capitalized with a Capital Adequacy Ratio of 16.4% in 2021, from 16.9% in 2020 with the decline primarily from the strong organic balance sheet growth experienced in the year, buoyed however by the successful issuance of the Banks' US $500 million 6-year Tier-1 sukuk.

Shareholders equity increased to KD 564 Million; an increase of 9% in 2021. The Board of Directors have proposed cash dividends of 5 Fils per share and stock dividends of 5% for the year 2021 which are subject to approval at the forthcoming Annual General Assembly meeting.

## Governance Report

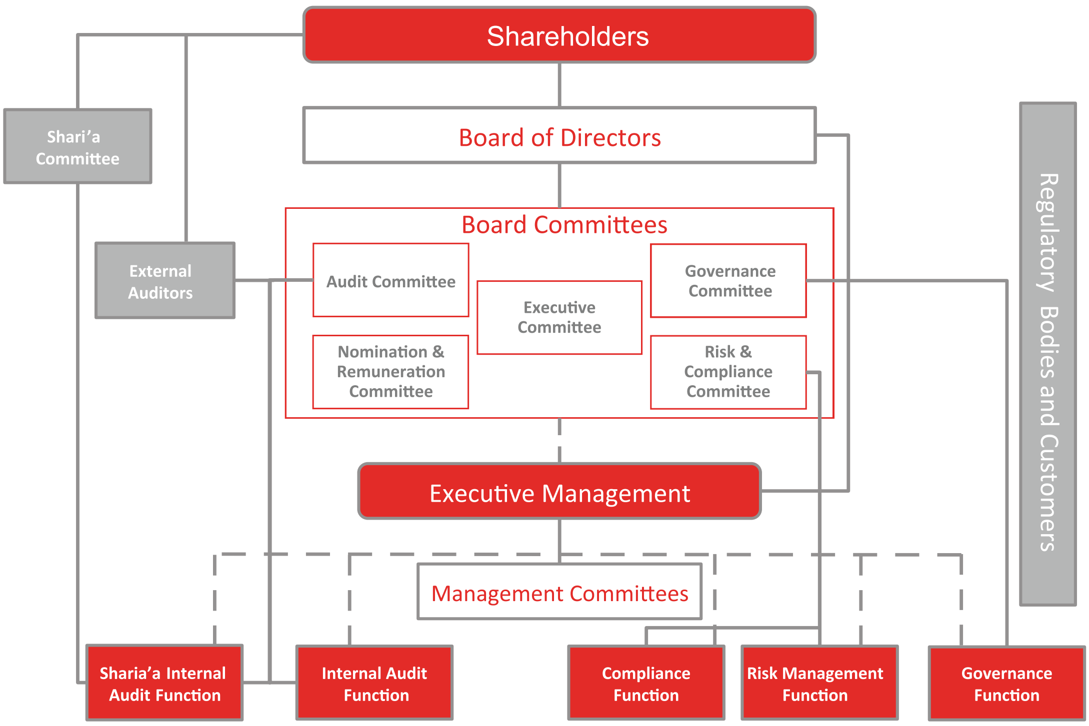
## Governance Statement

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

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

Driven by Boubyan Bank's continuous endeavors for adopting professional practices in management and control under the prime objective of delivering the best to our customers, shareholders and other stakeholders, we maintained during 2021 a proper implementation of the "Governance Framework" in line with the bank's "Governance Manual". We ensured adequate compliance with the Corporate Governance and Sharia Governance requirements of the Central Bank of Kuwait ("CBK"). We implemented as well the latest Corporate Governance requirements issued by the CBK on 10 September 2019. In 2021, two (2) independent directors were selected as per the latest governance instructions, and our bank's Articles of Association has been amended so that at least 4 independent directors are selected during 2022.

## Governance Framework



# Governance Report

## Board of Directors

Boubyan Bank is managed by a Board of Directors (the 'Board'), which currently consists of eleven Directors, 9 directors and two independent directors, elected by the shareholders under a mandate to deliver sustainable value to all stakeholders, including depositors/customers, shareholders, employees, and society. However, the Board will comprise of eleven Directors in 2022 as four Independent Board Directors will be elected.

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

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

## Directors

### Abdulaziz Abdullah Dakheel Al-Shaya

Chairman

Year of joining: 2009

**Skills and Experience:**

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

**Other current posts:**

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

### Adel Abdul Wahab Al-Majed

Vice-Chairman & Group Chief Executive Officer (Executive)

Year of joining: 2010

**Skills and Experience:**

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

**Other current posts:**

- Chairman – Bank London & Middle East (UK)

### Adnan Abdullah Al-Othman

Director (Non-Executive)

Year of joining: 2016

**Skills and Experience:**

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

**Other current posts:**

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

### Fahad Ahmad Al-Fouzan

Director (Non-Executive)

Year of joining: 2020

**Skills and Experience:**

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

### Hazim Ali Al-Mutairi

Director (Non-Executive)

Year of joining: 2010

**Skills and Experience:**

Mr. Al-Mutairi has a well-diversified experience for more than 28 years in the fields of financing, investment, and banking. He is currently the CEO of a holding company. He graduated from the United States of America with a bachelor's degree in Finance.

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

## Mohamed Yousef Al-Saqer
Director (Non-Executive)
Year of joining: 2019
**Skills and Experience:**
Mr. Al-Saqer is a well-known businessman with more than 32 years of experience in business; he is the managing partner of two trading companies in Kuwait. Mr. Al-Saqer holds a bachelor's degree in Public Administration from Point Park University - USA.

## Waleed Mishari Al-Hamad
Director (Non-Executive)
Year of joining: 2010
**Skills and Experience:**
Mr. Al-Hamad has more than 30 years of experience, including 11 years in banking and the remaining in the investment sector; he is the Managing Director of a holding company in Kuwait. Mr. Al-Hamad possesses a bachelor's degree in Economics, and a master's degree in Finance from the United States of America.
**Other current posts:**
- Board Director and CEO – Helvetia Arab Holding Company, KSCC (Kuwait)

## Waleed Ibrahim Al-Asfour
Director (Non-Executive)
Year of joining: 2019
**Skills and Experience:**
Mr. Al-Asfour possesses more than 37 years of experience in real estate and financial sectors. He manages a real estate company and an investment company in Kuwait. Mr. Al-Asfour graduated from Kuwait University with a bachelor's degree in Business Administration - Finance.
**Other current posts:**
- Vice Chairman – Al-Wodouh Capital Holding Company, KSCC (Kuwait)
- Board Director – Shorooq for Medical Services Company, KSCC (Kuwait)
- Managing Partner - Market Plus Real Estate (Kuwait)

## Waleed Abdullah Al-Houti
Director (Non-Executive)
Year of joining: 2019
**Skills and Experience:**
Mr.Al-Houti possesses around 40 years of experience in financial and oil sectors. He is currently a Chairman of Kuwaiti shareholding company, which invests in petroleum services. Mr. Al-Houti graduated from Kuwait University with a bachelor's degree in Business Administration - Finance.
**Other current posts:**
- Chairman – Al-Dorra for Petroleum Services Company, KSCC (Kuwait)
- Vice -Chairman – Makamen for Oil and Gas Services Company (Saudi Arabia)

## Imran A. Ali
Director (Independent)
Year of joining: 2021
**Skills and Experience:**
Mr. Ali trained as an external auditor with EY in the UK and has 40 years of experience in that field serving in five countries across three continents. He retired as the Managing Partner of EY Assurance practice in the Middle East and North Africa (MENA). Mr. Ali gained fellowship and is now a life member of the Institute of Chartered Accountants in England and Wales (ICAEW).
**Other current posts:**
- Independent director at Boubyan Bank.

## Waleed Humoud Al-Ayadhi
Director (Independent)
Year of joining: 2021
**Skills and Experience:**
Mr. Al-Ayadhi possesses around 40 years of experience in banking and insurance sectors. He is currently a Deputy CEO at a Kuwaiti takaful insurance company. Mr. Al-Ayadhi graduated from City University in USA with a bachelor's degree in Business Administration.
**Other current posts:**
- Independent director at Boubyan Bank.
- Deputy CEO at a Kuwaiti takaful insurance company.

# 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 being appointed by the shareholders. Within the Board, only the Vice-Chairman is entrusted with executive role since he undertakes the & role of Group CEO; all other Board Directors are eight non-Executive Directors and two Independent Directors, who are not acting as employees and do not participate in day-to-day business management and activities of Boubyan.

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

Further, non-Executive & Independent 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 Director will be managed and cleared as per the adopted policies. Hence, the Bank confirms the independence of its Board Directors on their judgments and decisions.

## Approach to Governance

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

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

## Authorities

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

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

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

## Reporting of Information

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

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

- Reports on capital management, business continuity and succession planning.

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

## Board Assessment

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

For 2021, Boubyan Bank conducted performance assessment for the Board and Board Directors in line with the adopted mechanism. The outcome of the assessment revealed that the Board met the requirements and expectations of the assessment criteria. It also showed that the Board Directors were clearly aware of their duties and fulfilled them accordingly. Furthermore, there are no areas of concern on the overall performance of the Board and the individual performance of each Director.

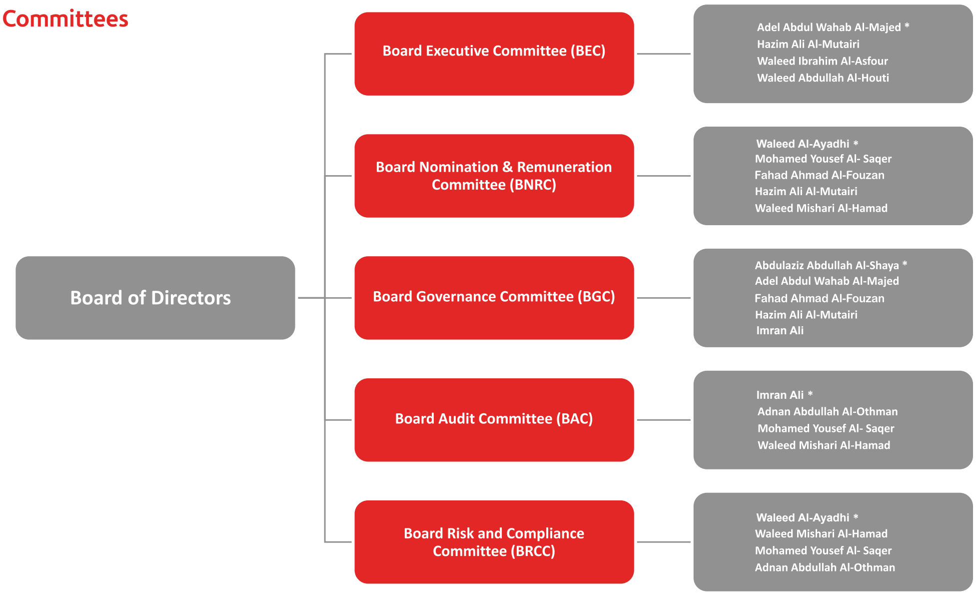
## Board Committees

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

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

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

## Composition of 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 & Group CEO. The members of the BEC are not members in Board Audit Committee or Board Risk and Compliance Committee; and they possess collective experience in banking, credit financing, business, and real estate.

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

**Committee Activities During the Year:**

During 2021, the committee met 19 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 five Board Directors; the chairperson of the committee shall be one of the board's independent members who shall have a vice-chairperson to act on his behalf in his absence. The members of the BNRC have collective experience in banking, business, and Islamic Sharia.

As per the charter 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 in addition to ensuring proper employee succession plan is in place.

**Committee Activities During the Year:**

- During 2021, the BNRC met four times; the activities of the BNRC included, but were not limited to:
- Review the proposed remuneration schemes and propose recommendations to the Board.
- Administer Board Performance Assessment.
- Conduct performance assessment for Fatwa and Sharia Supervisory Board.
- Review the annual performance assessment of the Vice-Chairman & Group CEO.
- Ensure that performance assessment was conducted for Executive Management.
- Review the succession plan.
- Identify training programs to the Board.
- Review and approval of Code of Conduct & Ethics for the Board of Directors and Executive Management.
- Discussing the employment of national competent cadres in mid and top management.

### Board Governance Committee (BGC)

The BGC comprises of five 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.

**Committee Activities During the Year:**

During 2021, the BGC met twice. The BGC covered the following activities by way of example and not limitation:

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

### Board Audit Committee (BAC)

The BAC comprises of four Board Directors and is presided by an independent member, and those 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 roles include:

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

**Committee Activities During the Year:**

The BAC met seven times during 2021, including a meeting every quarter in line with the corporate governance regulatory requirements, the activities of the BAC included but were not limited to:

- Approve internal audit plan.
- Discuss internal audit reports, management letters of external auditors, and ICR report.
- Review annual and quarterly financial statements.
- Approve the accounting policies.
- Follow up on the corrective actions for observations of internal audit reports, management letters issued by external auditors as well as the ICR, and CBK observations and respective actions.
- Discuss the Sharia internal audit reports.
- Meet the External Auditors and the External Sharia Auditors.

## Board Risk Management and Compliance Committee (BRCC)

The BRCC comprises of four Board Directors and is presided by an independent director; none of its members is a member of Board Executive Committee. As per its charter, the BRCC meets at least four times a year. The role of the BRCC includes:

- Assessing the Risk Appetite measures, Risk Strategy, and other risk related metrics, and proposing recommendations to the Board.
- Reviewing and discussing the reports of the Risk Management Group, including the Capital Adequacy Ratio, Internal Capital Adequacy Assessment Process (ICAAP), Stress Testing, and other risk assessment reports.
- Providing support to the Risk Management Group to ensure fulfilling its scope of work effectively and independently.
- Approving the appointment and/or resignation of the Chief Risk Officer – Risk Management Group, and assessing his annual performance.

**Committee Activities During the Year:**

During 2021, the BRCC met nine times; and its activities included but were not limited to the following:

- Reviewing risk appetite metrics and reports on risk levels.
- Reviewing the bank's capital plan.
- Approving a number of policies such as AML Policy and Investment Policy.
- Discussing the sukuk portfolio investment plan.
- Review ICAAP report and the results of stress testing.
- Periodic review of the bank's international exposures' limits.
- Discussing the reports and activities' plans of the Compliance Department and the AML Department.
- Reviewing and discussing the project for restructuring AML.
- Reviewing and discussing the non-quantitative risks, especially cybersecurity, and the steps to cover the same by the IT Department in addition to discussing the executives in charge of this department.

## Meetings of Board and Board Committees

| Attendance | Board | BEC | BNRC | BCGC | BAC | BRCC |
|---|---|---|---|---|---|---|
| Number of Meetings | 6 | 19 | 4 | 2 | 7 | 9 |
| Minimum Required Meetings | 6 | 6 | 4 | 2 | 4 | 4 |
| Abdulaziz Abdullah Dakheel Al-Shaya | 6 | | | 2 | | |
| Adel Abdul Wahab Al-Majed | 6 | 18 | | 2 | | |
| Adnan Abdullah Al-Othman | 6 | | | | 7 | 8 |
| Fahad Ahmad Al-Fouzan | 6 | | 4 | 2 | | |
| Hazim Ali Al-Mutairi | 5 | 16 | 4 | 2 | | |
| Mohamed Yousef Al-Saqer | 6 | | 4 | | 7 | 9 |
| Waleed Mishari Al-Hamad | 4 | | 4 | | 6 | 9 |
| Waleed Ibrahim Al-Asfour | 5 | 17 | | | | |
| Waleed Abdullah Al-Houti | 6 | 19 | | | | |
| Sayed Imran Azhar (I) | 5 | | | 2 | 5 | |
| Waleed Humoud Al-Ayadhi (I) | 5 | | 4 | | | 5 |

(I) Selected as Independent Directors during the General Assembly meeting held on March 7th 2021.

# Governance Report

## Executive Management

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

## Management Team

### Adel Abdul Wahab Al-Majed

**Vice-Chairman & Group Chief Executive Officer**

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

### Abdullah Abdulkareem Al-Tuwaijri

**Chief Executive Officer - Private, Consumer & Digital Banking**

Mr. Al-Tuwaijri joined Boubyan Bank in December 2011 and has more than 32 years of banking experience, including 23 years at NBK. During his time with NBK, he held different leadership roles in retail banking in Kuwait and London. Mr. Al-Tuwaijri earned his bachelor's degree in Finance from Kuwait University, and attended several executive development programs at Harvard Business School, INSEAD, and other reputable institutions.

### Abdul-Salam Mohammed Al-Saleh

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

Mr. Al-Saleh joined Boubyan Bank in October 2012, and has more than 33 years of banking experience. He worked for 18 years at NBK, where he gained experience in Financial Control and Corporate Banking; and his last position was the Head of Domestic Corporate Banking. Prior to joining the Bank, he worked over 7 years for National Bank of Abu Dhabi (NBAD) as the Regional Manager of its branch in Kuwait. Mr. Al-Saleh earned his bachelor's degree in Finance from Kuwait University, and attended various executive management development programs over the course of his career.

### Waleed Khalid Al-Yaqout

**Group General Manager - Administration Group**

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

### Adel Abdullah Al Hammad

**Group General Manager - Human Resources Group**

Mr. Al-Hammad joined Boubyan Bank in December 2006, and has more than 37 years of experience in Human Resources Management, out of which 23 years were at NBK, where he held several key positions, the last of which was the Head of Human Resources. Mr. Al-Hammad graduated with a bachelor's degree in Economics from Kuwait University, and attended several executive management development programs at Harvard and Stanford.

### Abdullah Ahmed Al-Mehri

**Chief Operating Officer**

Mr. Al-Mehri joined Boubyan Bank in January 2019 and has more than 20 years of experience in banking sector. Prior to Boubyan, he was the head of the "Off-site Supervision Department" at the Central Bank of Kuwait. He worked earlier in the Corporate Banking as Executive Manager at First Bank of Abu Dhabi in Kuwait and Senior Manager at National Bank of Kuwait. He holds a bachelor's degree in accounting from the American University of Cairo and a master's degree in business administration from the Maastricht University in Kuwait; he attended as well various executive management development programs at Harvard.

### Abdullah Abdulmohsen Al-Mejhem

**Chief Private Banking and Acting Chief Consumer Banking**

Mr. Al-Mejhem joined Boubyan Bank in 2021 and has more than 20 years of experience in banking sector and financial institutions. Prior to joining Boubyan, he was the General Manager of Private Banking and Individual Finance at Kuwait Finance House. Also, he worked for Deloitte audit and consultancy firm in Kuwait and for Kuwait Investment Authority. He holds a bachelor's degree in accounting and a master's degree in business administration (MBA) from Kuwait University; he attended as well various executive management development programs. Furthermore, Mr. Al-Mejhem is a Chartered Accountant in Kuwait.

### Ashraf Abdallah Sewilam

**Group General Manager – Corporate Banking Group**

Mr. Sewilam joined Boubyan Bank in 2013, and has over 27 years of experience in banking sector. Before joining Boubyan, Mr. Sewilam was CEO of Al Rajhi Bank-Kuwait. He occupied the position of the CEO of UBCI (a subsidiary of Ahli United Bank (AUB) in Libya) and was a Deputy CEO for Corporate and Treasury at AUB in Kuwait. He worked as well for 10 years at NBK, where he progressed in several managerial positions, the last of which was Executive Manager. Mr. Sewilam holds bachelor's degree in Economics from Cairo University.

### Abdul Rahman Hamza Mansour

**Chief Internal Auditor - Internal Audit Group**

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

### Mohamed Ibrahim Ismail

**Group General Manager – Financial Control Group**

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

### Maged George Fanous

**Chief Risk Officer – Risk Management Group**

Mr. Fanous joined Boubyan Bank in February 2018; he has over 33 years of experience in banking, risk management, and financial regulations. Before joining Boubyan, he was a lead partner of the Risk and Regulatory practices of Ernst & Young in the UK and MENA. Prior to this, he was a lead partner of the Finance and Performance Management (FPM) of Accenture's UK/Ireland. Mr. Fanous holds a bachelor's degree in accounting from Cairo University.

### Noorah Sulaiman Al-Fassam

**Chief Strategy Officer**

Ms. Noora Al-Fassam joined Boubyan Bank in April 2019 with over 23 years of experience in corporate finance and investment banking as she served as the Chairman's Consultant and Executive Vice-President at National Investments Company and managed many landmark private placement transactions and executed mega M&A transactions in the region. Ms. Al-Fassam was a member of the investment banking team at NBK and was involved in capital market transactions as well as investment banking deals in the MENA region. She holds a Master's Degree in Business Administration and a Bachelor's degree in Industrial Engineering and Management Systems with distinction and honor list from Kuwait University.

### Abdullah Khalifa Al-Nusef

**Chief Data & Information Technology Officer**

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

## Governance Report

### Osama Mohammed Shehab
**Chief Digital Officer**

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

### Adel Rashed Al-Mutairi
**Treasurer - Treasury Group**

Mr. Al-Mutairi joined the Bank in 2015 and has over 17 years of experience in banking sector, mainly in treasury services. Prior to joining Boubyan, he held the position as the Deputy Treasurer at Warba Bank. Mr. Al-Mutairi holds a bachelor's degree in Education – Major in Science & Mathematics; and he attended the executive management programs at Wharton Business School and Harvard Business School.

### Mona Abdullatif Al Duaij
**Chief Compliance Officer**

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

### Jabra Raja Ghandour
**Chief Executive Officer - Boubyan Capital**

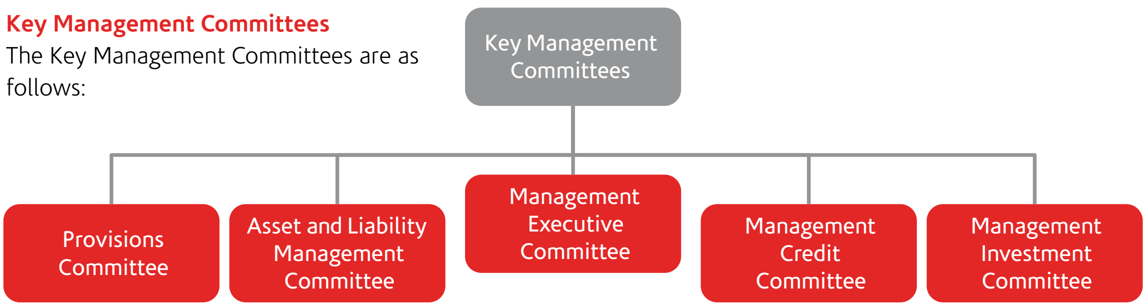
Mr. Ghandour joined Boubyan Group in 2018; he has over 35 years of experience in banking and investment sectors. Prior to joining Boubyan Capital, he was the CEO and Board Director of Bank London and Middle East. He worked earlier with NBK Group as Managing Director of International Bank of Qatar, General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

### Management Committees

The Executive Management works in a teamwork spirit, where collective efforts and decisions would be required for ensuring effective and efficient management of integrated functions and activities. Accordingly, Boubyan Bank has a set of Management Committees to assist in fulfilling the duties and responsibilities of the Executive Management. The Management Committees derive their authorities mainly from the Vice-Chairman & Group CEO, and based on authorities and limits

### Key Management Committees

The Key Management Committees are as follows:



**Management Executive Committee**
This committee deals with all significant management level matters other than those handled by other management committees. The MEC meets on ad hoc basis.

**Assets and Liability Management Committee (ALCO)**
The ALCO reviews the assets and liability composition of the bank, liquidity, market risks, trends and their impact on the Bank. The committee generally meets on a monthly basis.

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

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

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

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

In line with its duties and responsibilities toward ensuring adequate internal control systems, the Board provided all needed support and ensured fulfillment of the roles of the various functions involved in the internal control, including:
- Fatwa and Sharia Supervisory Board
- External Audit.
- Governance.
- Internal Audit.
- Sharia Internal Audit.
- Risk Management.
- Compliance.
- Anti-Money Laundering.
- Fraud Management and Monitoring

## Internal Control Review
In the year 2021, Boubyan Bank engaged an external auditor in line with the CBK regulations to conduct an independent internal control review for 2020's activities. Based on the review of the external auditor, no exceptions pertaining to governance aspects were noted. Further, the report of the external auditor concluded that Boubyan Bank maintained, in all material aspects, effective internal control systems; the Internal Control Review report is attached in the next page.

# Governance Report

## Internal Control Systems Review Report

**Private and confidential**

Chairman
Boubyan Bank
Kuwait City, Kuwait

22 September 2021

**Report on Accounting and Other Records and Internal Control Systems**

In accordance with our letter of engagement dated 21 February 2021, we have performed limited procedures over the internal control systems of Boubyan Bank K.S.C.P., and its subsidiaries (together referred to as "the Group"), which were in existence during the year ended 31 December 2020. We covered the following areas of the Group:

- Corporate Governance Unit;
- Corporate Banking Group;
- Anti-Money Laundering;
- Treasury;
- Consumer Banking Group
- Banking Operations Group
- Human Resources Group;
- Risk Management Group;
- Complaint Unit;
- Financial Control Group;
- Compliance Division;
- Administration Group;
- Sharia'a Internal Audit Division;
- Internal Audit Group;
- Corporate Communications Department;
- Information Technology Group;
- Legal Affairs Division;
- Consumer Finance Operations;
- Digital Group;
- Strategy and Planning;
- Boubyan Capital Investment Company K.S.C.P;
- Boubyan Takaful Insurance Company K.S.C.P;
- Bank of London & The Middle East (BLME).
- Confidentiality of Customers' Information;
- Anti-Fraud and Embezzlement Systems;
- Financial Securities.

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

Our procedures have been carried out in consideration of the requirements of the Central Bank of Kuwait (CBK) circular dated 7 January 2021 considering the requirements contained in the

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General Instructions Manual of the Internal Control Systems in Banks issued by the CBK on 15 June 2003, Pillar IV of Corporate Governance instructions in respect of risk management and internal controls issued by the CBK on 20 June 2012 and amended on 10 September 2019, CBK instructions regarding combating money laundering and terrorism financing updated as of 14 May 2019, instructions dated 9 February 2012 regarding confidentiality of customer's information, financial securities activities and instructions regarding internal controls with respect to prevention and reporting of fraud and embezzlement cases.

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

Further, we did not plan and perform our work with the objective of preventing or discovering fraud. Our procedures under this engagement are also not designed to and are not likely to reveal misrepresentation by the management of the company. Consequently, we give no assurance on whether the period covered by our engagement was free of fraud (whether by management or by external parties), other irregularities or misrepresentation by the management of the company or any other persons. Due to COVID 19 pandemic, we have completely relied upon the off-site meetings conducted and information provided remotely, in order to understand the control environment and perform our procedures at international locations. The off-site meetings and remote information was arranged by the Group.

Furthermore, the Bank has established a process of regular follow-up on reported exceptions to ensure that corrective actions are being taken to rectify the control weaknesses and gaps identified during the course of the Internal Control Review.

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

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

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# Governance Report

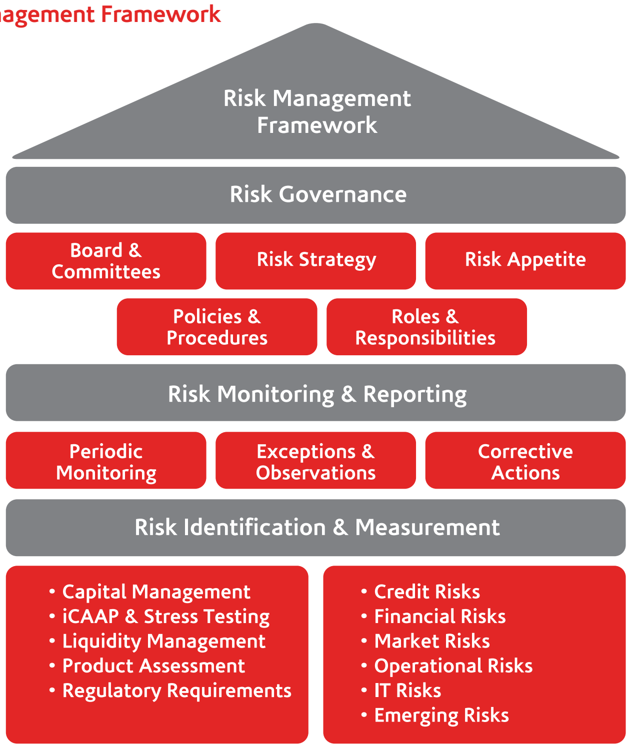
## Risk Management

### Risk Management Framework

Risk management is a core focus at Boubyan Bank. This is driven by the responsibility of the Board of Directors for protecting the best interests of shareholder and stakeholders, especially depositors/customers.

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

### Boubyan Bank Risk Management Framework




### Stress Testing

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

### Risk Management Group

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

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

## Remuneration Policy and Remuneration Package

### Remuneration Scheme

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

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

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

During 2021, Boubyan Bank conducted a review of the Remuneration Policy and Scheme.

### Board Remuneration

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

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

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

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

For the year 2021, the Board proposed annual remuneration of KD 580 thousand to be allocated to Board Directors as follows: KD 70 thousand to the Chairman, KD 55 thousand to each member of the Board Executive Committee, and KD 40 thousand to each other Board Director. This proposal is subject to the approval of shareholders in the General Assembly Meeting.

### Employee Remuneration

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

- Fixed Remuneration: such a remunerations is defined in the employment contracts, and include fixed salaries (i.e. basic salary, allowances and annual fixed pay as a percentage of the gross annual basic salary) and other benefits (i.e. medical insurance, air-tickets, and educational support).

- Variable Remuneration: such a remuneration is driven mainly by performance and guided by the "Employee Incentive Plan". This could be in the form of cash bonus, deferred cash bonus and/or Employee Stock Options (ESOP). The variable remuneration is reviewed by the Board Nomination and Remuneration Committee and approved by the Board of Directors.

# Governance Report

The following table details the remuneration paid to certain employee categories for the year ended 31 December 2021:

| Employees Categories | Number of Employees | Fixed Remuneration KD'000 | Variable Remuneration KD'000 | | Total KD'000 |
|---|---|---|---|---|---|
| | | | Cash | Deferred Cash | |
| Top Management | 47 | 5,651 | 1,598 | 1,490 | 8,739 |
| Material Risk Takers | 23 | 2,822 | 930 | 892 | 4,644 |
| Financial and Risk Control | 18 | 1,420 | 289 | 249 | 1,958 |

## Categories Definitions:

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

The five senior executives who received the highest remuneration packages, plus the heads of Financial Control, Internal Audit and Risk Management groups (8 executives in total) received together as a group remuneration & salaries' package of KD 3,808 thousand for the year ended 31 December 2021.

## Major Shareholders

As at December 31, 2021, the major shareholders owning or controlling more than 5% of the capital were as follows:

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

# Social Responsibility

### 2021… Swinging Between Reopening, Partial Lockdown, and Return to Normal Life

The year 2021 has been no different than the previous one in terms of the state of instability that swept the world and Kuwait owing to the continued concerns and fears arising as a result of the Covid-19 pandemic, which impacted many aspects of life. 2021 witnessed swinging between reopening at the beginning, followed by partial lockdown, and finally returning to normal life as a result of vaccinating more than 75% of the Kuwaiti population.

Despite such challenging times where some competitors remained focused mainly on business-related goals in order to weather the economic storm caused by the Covid-19 pandemic, Boubyan Bank continued to treat CSR efforts as one of its top priorities, being a way to give back to our beautiful country and community, thereby confirming our CSR leadership position in Kuwait.

The bank even took CSR to another level by giving more focus to sustainability projects, which now serve as the foundation of Boubyan's projects that are completely aligned with the state-wide efforts aiming at environmental conservation with the greater worldwide impact kept in mind. All these efforts coupled with Boubyan's activities and events throughout the past year highlight the role played by the private sector in supporting our local community.

### Frontliners & The Vaccination Campaign

Ever since the first day of the crisis back in February 2020, Boubyan Bank has been placing the recognition and appreciation of frontliners among its top priorities, and has been keen to stand by them in each occasion and to honor them due to their invaluable efforts.

In line with these efforts, the bank organized the biggest campaign in Kuwait to encourage and reward our customers, who got vaccinated, with valuable prizes including trips to other countries abroad inclusive of all costs and expenses in addition to valuable cash prizes to more than 20 winners; all this aimed to support the government's efforts towards the return to normal life as soon as possible.

Thousands of customers participated in the draw through the smart phones' App via Msa3ed, our chatbot, where 20 winners received valuable prizes including trips abroad and valuable cash prizes as well.

### Activities of the Holy Month of Ramadan

Boubyan continued organizing Boubyan Steps campaign for the 8th consecutive year to encourage citizens and residents to exercise walking during the Holy Month of Ramadan during the period allowed for walking. As was the case in prior years, the revenue of that campaign was directed to eyesight-restoration operations in Africa.

Participation in this charity effort was available via Boubyan Steps App which could be installed on any smart phone before going on to exercise walking any time whenever possible. This allowed everyone to contribute to the treatment of thousands around the world in addition to staying fit by walking and exercising sport amid the ongoing situation.

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

Additionally, the bank organized its annual "Recite with Boubyan" competition for the memorization and recitation of the Glorious Qur'an for the 7th year in a row. The competition was held for Boubyan Bank's Al Ghaly & Prime accounts' customers in addition to customers' children only. Thousands of both genders, aged 7-25, participated in the competition, and this highlighted the competition's popularity which was held using remote means of communication.

## Social Responsibility

Furthermore, the bank continued with its volunteer initiative, Neqsat Boubyan, where Boubyan Team of Volunteers prepared and distributed food supplies of the Holy Month of Ramadan to needy families and workers in an initiative from the bank to take some burdens off the shoulders of these families, especially amid the tough economic circumstances many were going through due to the Covid-19 pandemic.

Also, as a part of our continued activities targeting kids, the bank cooperated with Kuwait Association for the Care of Children in Hospital "KACCH" and Bayt Abdullah to give away Gargee'an sweets to kids at hospitals. The sweets were delivered to specialists to give to kids.

### The Be Aware Campaign "Diraya"

To support the State's efforts towards spreading financial awareness among various segments of the society, the bank actively participated in Diraya "Be Aware" Campaign, led by the Central Bank of Kuwait in collaboration with Kuwait Banking Association and Kuwaiti banks.

Boubyan used all of its digital channels to keep customers and non-customers informed of their rights, obligations, and the role played by the banking sector in Kuwait in addition to enlightening customers on ways to make the best use of available banking services. Not only did Boubyan spread financial awareness among customers as a part of Diraya Campaign, but also made them aware of recent cybersecurity issues through many messages and social media posts, and news pieces so that customers may avoid falling victims of fraud. Moreover, Boubyan Bank has been keen on promoting the goals of this campaign throughout all events and activities organized by the bank over the past year.

### Supporting Small Projects

In August 2021, Boubyan Bank announced its support to the youths' initiative (Tetaman) in cooperation with Sheghel.com platform, where a group of freelancers would offer free services to Kuwaiti SMEs' owners, especially those who were severely impacted by the Covid-19 pandemic.

Tetaman initiative was a great opportunity to support these projects, especially as some freelancers offered free services to the owners of those projects, knowing that such services always need a special budget since they are vital for projects.

The initiative offered support to business customers, be they individuals or SMEs, and provided them with all the benefits which could help grow their business and achieve better productivity levels, especially amid the ongoing situation affecting economic sectors due to the repercussions of the Covid-19 pandemic.

Furthermore, the bank inked a partnership agreement with the V-Thru App aiming to support Boubyan Bank SMEs customers who can sign up for this App which is specialized in special orders from cafés and restaurants.

Existing and potential SMEs' customers of the bank will enjoy many benefits upon registration for the V-Thru App as the bank will bear the cost of the App's registration fees, signs, and the special work device which will be provided to each restaurant or cafés.

Finally, Boubyan Bank will continue, God willing, supporting various sectors and segments of the society as a part of its constant endeavors to achieve sustainable development.

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

بـنـك بـوبـيـان
Boubyan Bank

# Risk Managment

For the year ended 31 December 2021

## 1. INRODUCTION AND OVERVIEW

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

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

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

In June 2014, Central Bank of Kuwait (CBK) issued directives on the adoption of the Capital Adequacy Standards (Basel III) under the Basel Committee framework applicable to licensed Islamic banks in Kuwait, effectively replacing and superseding the earlier requirements under the circular issued in 2009, Basel framework (Basel II). The reforms strengthen the quality of capital and introduced several buffer requirements in line with proposals made by the Basel Committee on Banking Supervision (BCBS). The CBK Basel framework consists of three Pillars. Pillar 1 provides a framework for measuring capital requirements for credit, operational and market risks under the "Standardised Approach". Pillar 2 pertains to the Supervisory Review Process and emphasises the importance of Internal Capital Adequacy Assessment Process (ICAAP) performed by banks.

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

Detailed information on risk assessment includes:

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

Information on capital adequacy includes:

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

## 2. REGULATORY SCOPE OF CONSOLIDATION

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

The consolidated financial statements and capital adequacy regulatory reports of the Group have been prepared and consolidated on a consistent basis, unless otherwise disclosed. For additional information on the basis of preparation and basis of consolidation please refer to notes 2 and 3.1 of the Group's consolidated financial statements for the year ended 31 December 2021.

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

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

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

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

## 3. CAPITAL STRUCTURE

The Group's regulatory capital comprises:

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

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

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

The Bank's share capital as at 31 December 2021 comprised **3,179,697,604** (31 December 2020 comprised 3,028,283,433) issued and fully-paid up equity shares.

The regulatory capital for the Group is detailed below:

| Table 1 | **2021** KD '000s | 2020 KD '000s |
|---|---|---|
| **Regulatory Capital** | | |
| Common Equity Tier 1 Capital | **567,528** | 558,460 |
| Additional Tier 1 Capital | **149,544** | 78,015 |
| **Tier 1 Capital** | **717,072** | 636,475 |
| Tier 2 Capital | **58,354** | 51,864 |
| **Total Regulatory Capital** | **775,426** | 688,339 |

## 4. CAPITAL ADEQUACY RATIOS

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

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

| | **2021** | | 2020 | |
|---|---|---|---|---|
| **Table 2** | **MCR*** | **CAR** | MCR* | CAR |
| Common Equity Tier 1 capital adequacy ratio | **10.50%** | **12.00%** | 10.00% | 13.68% |
| Tier 1 capital adequacy ratio | **12.00%** | **15.17%** | 11.50% | 15.59% |
| Total Regulatory capital adequacy ratio | **14.00%** | **16.40%** | 13.50% | 16.86% |

* includes a 2.5% capital conservation buffer and 1% D-SIB buffer (2020: 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 2021 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 2021 was **KD 573,643 thousand**, (31 December 2020: KD 492,813 thousand) as detailed below:

| Table 3 | 2021 Gross credit exposure KD '000s | 2021 Risk weighted assets KD '000s | 2021 Minimum capital requirement KD '000s | 2020 Gross credit exposure KD '000s | 2020 Risk weighted assets KD '000s | 2020 Minimum capital requirement KD '000s |
|---|---|---|---|---|---|---|
| Cash | **39,086** | **-** | **-** | 37,826 | - | - |
| Claims on sovereigns | **745,167** | **83,665** | **10,876** | 607,392 | 66,641 | 8,663 |
| Claims on international organisations | **115,368** | **-** | **-** | 112,570 | - | - |
| Claims on public sector Entities | **288,826** | **42,252** | **5,493** | 206,444 | 36,073 | 4,689 |
| Claims on MDBs | **60,700** | **14,392** | **1,871** | 58,176 | 6,078 | 790 |
| Claims on banks | **628,623** | **118,280** | **15,376** | 523,134 | 100,634 | 13,082 |
| Claims on corporates | **3,015,539** | **2,142,600** | **278,538** | 2,909,974 | 1,957,553 | 254,482 |
| Regulatory retail exposure | **2,360,642** | **1,673,042** | **217,495** | 1,854,172 | 1,236,996 | 160,809 |
| Past due exposure | **50,777** | **36,988** | **4,808** | 55,018 | 38,875 | 5,054 |
| Investments in real estate | **21,706** | **43,412** | **5,644** | 47,133 | 94,266 | 12,255 |
| Investments and financing to customers | **65,937** | **92,193** | **11,985** | 81,057 | 109,955 | 14,294 |
| Sukuk exposures | **17,345** | **12,293** | **1,598** | 17,982 | 11,998 | 1,560 |
| Other exposures* | **303,806** | **153,519** | **19,959** | 257,140 | 131,804 | 17,135 |
| | **7,713,522** | **4,412,636** | **573,643** | 6,768,018 | 3,790,873 | 492,813 |

*"Other exposures" above includes a threshold deduction of **KD 1,435 thousand** (31 December 2020: KD 2,088 thousand) and an amount of **KD 102,035 thousand** negative (31 December 2020: KD 78,002 thousand negative) representing the amount of general provision in excess of a maximum of 1.25% of Credit Risk weighted assets, which is allowed in arriving at Tier 2 Capital.

### 5.2 Market risk:

The total Minimum Capital requirement (MCR) in respect of market risk was **KD 232 thousand** arising only from foreign exchange risk, (31 December 2020: KD 1,255 thousand).

### 5.3 Operational Risk:

The Minimum Capital requirement (MCR) in respect of operational risk was **KD 40,709 thousand**, (31 December 2020: KD 36,804 thousand). This Minimum Capital requirement (MCR) was computed using the Basic Indicator Approach by multiplying the three-year average gross income by a pre-defined beta factor.

## 6. GROUP RISK MANAGEMENT

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

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

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

**6. GROUP RISK MANAGEMENT (CONTINUED)**

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

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

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

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

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

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

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

**6.1 Scope and nature of risk reporting tools**

The comprehensive Risk Management Framework enables the Bank to identify, assess, limit and monitor risks using a comprehensive range of quantitative and qualitative tools. Some of these tools are common to a number of risk categories, while others are tailored to the particular features of specific risk categories and enable generation of information such as:

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

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

**6.2 Risk management processes**

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

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

## 6. GROUP RISK MANAGEMENT (CONTINUED)

### 6.2 Risk management processes (continued)

#### 6.2.1 Credit risk

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

#### 6.2.2 Credit risk management strategy

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

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

#### 6.2.3 Credit risk management structure and governance

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

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

In compliance with CBK regulations, financing to individual Board Members and related parties is fully secured and monitored by the Board Executive Committee. Such transactions are made on substantially the same terms, including profit rates and collateral, as those prevailing at the time for comparable transactions with unrelated parties. All such facilities are approved by the Board of Directors in line with the relative authorities from the Shareholders' General Assembly.

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

#### 6.2.4 Key features of corporate credit risk management

- Credit facilities are granted based on detailed credit risk assessments which consider the purpose of the facility and source of repayment, prevailing and potential macro-economic factors, industry trends and the customer's positioning within its industry peer.
- Internal credit-rating models are regularly reviewed by the Bank 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. GROUP RISK MANAGEMENT (CONTINUED)

### 6.2 Risk management processes (continued)

#### 6.2.5 Key features of consumer credit risk management

- Oversight of consumer finance risk is undertaken by an independent unit directly within Bank Risk Management. Within this framework, limits and approval authorities are exercised by Consumer Banking officers with defined approval authorities.
- Consumer credit risk management functional areas are aligned with key concepts of risk management, namely, governance, control, measurement and reporting.
- Consumer credit risk is managed with three lines of defence. As the first line of defence, Consumer Banking (i.e., underwriting) is responsible for adherence to CBK regulations and guidelines, the credit policies, controls and processes. As second line of defence, the consumer credit risk management team, working independently of the business unit, assesses and ensures implementation of credit risk management discipline & policies. The third line of defence, the Internal Audit function, independently tests, verifies and evaluates controls for effective credit risk management and implementation of policies & procedures.
- All significant financing policies and amendments to policies are reviewed annually by the Management Executive Committee and approved by the Board.
- The Consumer Financing risk assessment for applicants uses risk "scorecard" customer-centric methodologies which incorporate CBK regulatory guidelines and Bank policies related to consumer financing facilities, such as debt-to-income ratio, minimum qualifying income and limits on advances by product type. Additional inputs utilised include applicant characteristics obtained from financing bureaus, particularly Kuwait Credit Bureau statistics, to assist in assessing an applicant's ability to repay and the probability of default. This model is reviewed and refined continually.

#### 6.2.6 Group's credit risk monitoring

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

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

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

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

#### 6.2.7 Group's credit risk mitigation strategy

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

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

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

**6. GROUP RISK MANAGEMENT (CONTINUED)**

**6.2 Risk management processes (Continued)**

**6.2.8 Management of credit collateral and valuation**

The main types of collateral accepted by the Bank include:

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

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

The custody and daily "mark to market" (revaluation) of financial collateral, inclusive of shares, are performed independent of the business units. Real estate collateral is valued on an annual basis.
The Group's credit exposures were covered by the following eligible financial collateral:

| | **2021** | | 2020 | |
|---|---|---|---|---|
| | **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 | **39,086** | **-** | 37,826 | - |
| Claims on sovereigns | **745,167** | **-** | 607,392 | - |
| Claims on international organisations | **115,368** | **-** | 112,570 | - |
| Claims on public sector Entities | **288,826** | **-** | 206,444 | - |
| Claims on MDBs | **60,700** | **-** | 58,176 | - |
| Claims on banks | **628,623** | **-** | 523,134 | - |
| Claims on corporates | **3,015,539** | **268,270** | 2,909,974 | 286,465 |
| Regulatory retail exposure | **2,360,642** | **-** | 1,854,172 | - |
| Past due exposure | **50,777** | **2,271** | 55,018 | 487 |
| Investments in real estate | **21,706** | **-** | 47,133 | - |
| Investments and financing to customers | **65,937** | **4,208** | 81,057 | 516 |
| Sukuk exposures | **17,345** | **-** | 17,982 | - |
| Other exposures | **303,806** | **-** | 257,140 | - |
| | **7,713,522** | **274,749** | 6,768,018 | 287,468 |

## 6. GROUP 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:

| | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|
| | **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 | **39,086** | **16,449** | **22,637** | 37,826 | 13,016 | 24,810 |
| Claims on sovereigns | **745,167** | **311,096** | **434,071** | 607,392 | 203,142 | 404,250 |
| Claims on international organisations | **115,368** | **48,164** | **67,204** | 112,570 | 37,649 | 74,921 |
| Claims on public sector Entities | **288,826** | **139,218** | **149,608** | 206,444 | 104,009 | 102,435 |
| Claims on MDBs | **60,700** | **36,155** | **24,545** | 58,176 | 36,920 | 21,256 |
| Claims on banks | **628,623** | **308,061** | **320,562** | 523,134 | 263,410 | 259,724 |
| Claims on corporates | **3,015,539** | **1,656,311** | **1,359,228** | 2,909,974 | 1,412,200 | 1,497,774 |
| Regulatory retail exposure | **2,360,642** | **985,535** | **1,375,107** | 1,854,172 | 620,128 | 1,234,044 |
| Past due exposure | **50,777** | **27,385** | **23,392** | 55,018 | 23,629 | 31,389 |
| Investments in real estate | **21,706** | **21,706** | **-** | 47,133 | 47,133 | - |
| Investments and financing to customers | **65,937** | **62,951** | **2,986** | 81,057 | 66,237 | 14,820 |
| Sukuk exposures | **17,345** | **7,241** | **10,104** | 17,982 | 6,014 | 11,968 |
| Other exposures | **303,806** | **203,008** | **100,798** | 257,140 | 156,216 | 100,924 |
| | **7,713,522** | **3,823,280** | **3,890,242** | 6,768,018 | 2,989,703 | 3,778,315 |

| | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|
| | ***Average credit exposure** | ***Average Self-funded exposure** | ***Average Funded through investments accounts exposure** | *Average credit exposure | *Average Self-funded exposure | *Average Funded through investments accounts exposure |
| **Table 6** | **KD '000s** | **KD '000s** | **KD '000s** | KD '000s | KD '000s | KD '000s |
| Cash | **41,917** | **17,282** | **24,635** | 37,170 | 14,014 | 23,156 |
| Claims on sovereigns | **705,552** | **288,893** | **416,659** | 608,020 | 228,734 | 379,286 |
| Claims on international organisations | **105,245** | **43,157** | **62,088** | 89,124 | 32,058 | 57,066 |
| Claims on public sector Entities | **262,018** | **131,229** | **130,789** | 175,811 | 80,408 | 95,403 |
| Claims on MDBs | **50,382** | **33,437** | **16,945** | 45,155 | 28,719 | 16,436 |
| Claims on banks | **721,101** | **348,393** | **372,708** | 558,158 | 277,322 | 280,836 |
| Claims on corporates | **2,979,013** | **1,608,097** | **1,370,916** | 2,883,745 | 1,464,174 | 1,419,571 |
| Regulatory retail exposure | **2,122,825** | **868,760** | **1,254,065** | 1,711,081 | 627,595 | 1,083,486 |
| Past due exposure | **48,206** | **22,752** | **25,454** | 40,896 | 16,070 | 24,826 |
| Investments in real estate | **40,789** | **40,789** | **-** | 47,136 | 47,136 | - |
| Investments and financing to customers | **78,652** | **67,568** | **11,084** | 76,501 | 61,812 | 14,689 |
| Sukuk exposures | **17,419** | **7,101** | **10,318** | 34,900 | 13,511 | 21,389 |
| Other exposures | **292,336** | **188,872** | **103,464** | 243,796 | 154,864 | 88,932 |
| | **7,465,455** | **3,666,330** | **3,799,125** | 6,551,493 | 3,046,417 | 3,505,076 |

* Based on quarterly average balances

## 6. GROUP RISK MANAGEMENT (CONTINUED)

### 6.2 Risk management processes (continued)

### 6.2.9 Gross, average and net credit exposures (continued)

| | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|
| | Net credit exposure | Self-funded exposure | Funded through investments accounts exposure | Net credit exposure | Self-funded exposure | Funded through investments accounts exposure |
| **Table 7** | KD '000s | KD '000s | KD '000s | KD '000s | KD '000s | KD '000s |
| Cash | **39,086** | **16,449** | **22,637** | 37,826 | 13,016 | 24,810 |
| Claims on sovereigns | **745,167** | **311,096** | **434,071** | 607,392 | 203,142 | 404,250 |
| Claims on international organisations | **115,368** | **48,164** | **67,204** | 112,570 | 37,649 | 74,921 |
| Claims on public sector Entities | **288,826** | **139,218** | **149,608** | 206,444 | 104,009 | 102,435 |
| Claims on MDBs | **60,700** | **36,155** | **24,545** | 58,176 | 36,920 | 21,256 |
| Claims on banks | **628,623** | **308,061** | **320,562** | 523,134 | 263,410 | 259,724 |
| Claims on corporates | **2,747,269** | **1,537,932** | **1,209,337** | 2,623,509 | 1,311,833 | 1,311,676 |
| Regulatory retail exposure | **2,360,642** | **985,535** | **1,375,107** | 1,854,172 | 620,128 | 1,234,044 |
| Past due exposure | **48,506** | **26,436** | **22,070** | 54,531 | 23,465 | 31,066 |
| Investments in real estate | **21,706** | **21,706** | **-** | 47,133 | 47,133 | - |
| Investments and financing to customers | **61,729** | **61,194** | **535** | 80,541 | 66,065 | 14,476 |
| Sukuk exposures | **17,345** | **7,241** | **10,104** | 17,982 | 6,014 | 11,968 |
| Other exposures | **303,807** | **203,009** | **100,798** | 257,140 | 156,217 | 100,923 |
| | **7,438,774** | **3,702,196** | **3,736,578** | 6,480,550 | 2,889,001 | 3,591,549 |

As at 31 December 2021, **23.1%** of the Group's net credit risk exposure was rated by accredited External Credit Assessment Institutions (ECAIs), (31 December 2020: 22.5%) as detailed below:

| | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|
| | 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 | **39,086** | **-** | **39,086** | 37,826 | - | 37,826 |
| Claims on sovereigns | **745,167** | **745,167** | **-** | 607,392 | 607,392 | - |
| Claims on international organisations | **115,368** | **115,368** | **-** | 112,570 | 112,570 | - |
| Claims on public sector Entities | **288,826** | **89,612** | **199,214** | 206,444 | 69,383 | 137,061 |
| Claims on MDBs | **60,700** | **60,700** | **-** | 58,176 | 58,176 | - |
| Claims on banks | **628,623** | **627,296** | **1,327** | 523,134 | 521,102 | 2,032 |
| Claims on corporates | **2,747,269** | **-** | **2,747,269** | 2,623,509 | 30,325 | 2,593,184 |
| Regulatory retail exposure | **2,360,642** | **-** | **2,360,642** | 1,854,172 | - | 1,854,172 |
| Past due exposure | **48,506** | **-** | **48,506** | 54,531 | - | 54,531 |
| Investments in real estate | **21,706** | **-** | **21,706** | 47,133 | - | 47,133 |
| Investments and financing to customers | **61,729** | **-** | **61,729** | 80,541 | - | 80,541 |
| Sukuk exposures | **17,345** | **17,345** | **-** | 17,982 | 17,982 | - |
| Other exposures | **303,807** | **61,046** | **242,761** | 257,140 | 38,284 | 218,856 |
| | **7,438,774** | **1,716,534** | **5,722,240** | 6,480,550 | 1,455,214 | 5,025,336 |

The Group uses external ratings (where available) from Fitch, S&P and Moody's to supplement internal ratings during the process of determining credit limits. Unrated public issue instruments are risk-weighted at 100% for capital adequacy purposes.

**6. GROUP RISK MANAGEMENT (CONTINUED)**

**6.2 Risk management processes (continued)**

**6.2.9 Gross, average and net credit exposures (continued)**

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

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

| 31 December 2020 | Middle East | North America | Europe | Asia and Other | Total |
|---|---|---|---|---|---|
| Table 9 | KD '000s | KD '000s | KD '000s | KD '000s | KD '000s |
| Cash | 37,278 | - | 548 | - | 37,826 |
| Claims on sovereigns | 601,377 | - | - | 6,015 | 607,392 |
| Claims on international organisations | - | - | - | 112,570 | 112,570 |
| Claims on public sector Entities | 196,321 | - | 9,510 | 613 | 206,444 |
| Claims on MDBs | 58,176 | - | - | - | 58,176 |
| Claims on banks | 335,317 | 55,341 | 122,905 | 9,571 | 523,134 |
| Claims on corporates | 2,441,656 | 6,347 | 453,588 | 8,383 | 2,909,974 |
| Regulatory retail exposure | 1,854,172 | - | - | - | 1,854,172 |
| Past due exposure | 47,264 | - | 7,754 | - | 55,018 |
| Investments in real estate | 17,398 | 25,594 | 4,141 | - | 47,133 |
| Investments and financing to customers | 22,435 | - | 58,622 | - | 81,057 |
| Sukuk exposures | 17,370 | - | - | 612 | 17,982 |
| Other exposures | 220,908 | 33,085 | 3,147 | - | 257,140 |
| | 5,849,672 | 120,367 | 660,215 | 137,764 | 6,768,018 |

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

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

## 6. GROUP 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 2021 was **KD 42,915 thousand** against which a specific provision of **KD 9,797 thousand** has been made, (31 December 2020: KD 52,071 thousand and KD 3,536 thousand), as detailed below:

| | **2021** | | | 2020 | | |
|---|---|---|---|---|---|---|
| | **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 | **47,682** | **5,843** | **41,839** | 52,968 | 1,912 | 51,056 |
| Regulatory retail exposure | **5,030** | **3,954** | **1,076** | 2,639 | 1,624 | 1,015 |
| | **52,712** | **9,797** | **42,915** | 55,607 | 3,536 | 52,071 |

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

| | **2021** | | | **2020** | | |
|---|---|---|---|---|---|---|
| | **Middle East** | **Europe** | **Total** | Middle East | Europe | Total |
| **Table 12** | **KD '000s** | **KD '000s** | **KD '000s** | KD '000s | KD '000s | KD '000s |
| Past due and impaired financing | **43,171** | **9,541** | **52,712** | 47,853 | 7,754 | 55,607 |
| Related specific provision | **5,544** | **4,253** | **9,797** | 3,536 | - | 3,536 |

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

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

The Group's total provision as at 31 December 2021 was **KD 168,709 thousand** inclusive of a general provision of **KD 158,472 thousand**, (31 December 2020: KD 129,900 thousand and KD 126,364 thousand), as detailed below:

| | **2021** | 2020 |
|---|---|---|
| **Table 13** | **KD '000s** | KD '000s |
| Claim on corporates | **134,877** | 107,846 |
| Regulatory retail exposure | **23,595** | 18,518 |
| | **158,472** | 126,364 |

The Group's general provision above includes **KD 2,410 thousand** relating to "non-cash" facilities in accordance with CBK regulations, (31 December 2020: KD 2,417 thousand).

## 6. GROUP 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:

| | **2021** | 2020 |
|---|---|---|
| **Table 14** | **KD '000s** | KD '000s |
| Middle East and North Africa | **143,357** | 110,988 |
| North America | **-** | 158 |
| Europe & UK | **15,115** | 12,801 |
| | **158,472** | 123,947 |

The analysis of specific and general provisions is further detailed in note 9 and 14 of the Group's consolidated financial statements.

### 6.3 "Market" risk

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

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

The strategy for controlling market risk includes:
- Stringent controls and limits.
- Strict segregation of "front", "middle" and "back" office duties.
- Regular independent reporting of positions.
- Regular independent review of all controls and limits.

#### 6.3.1 Market-Risk management framework

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

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

### 6.4 Liquidity risk

Liquidity risk is defined as the inability to generate sufficient financial resources to meet all obligations and commitments as they fall due, or having to access funds to meet payment obligations at an excessive cost. It is the policy of the Bank to maintain adequate liquidity at all times. The Bank applies a prudent mix of liquidity controls which provide security of access to funds without undue exposure to increased costs of funds from the liquidation of assets, or aggressive bidding for deposits. Liquidity risk is monitored and evaluated daily to ensure that, over the short term and by major currency, the profile of projected future cash inflows is adequately matched to the maturity of liabilities.

### 6.5 Reputation and fiduciary risk

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

Management of reputation risk is an inherent feature of the Group's corporate culture which is embedded as an integral part of the internal control systems. Besides identification and management of risks, the internal control system also incorporates as an ethos the maintenance of business practices of the highest quality towards its customers, shareholders, regulators, and general public and fiduciary and non-fiduciary clients.

## 6. GROUP RISK MANAGEMENT (CONTINUED)

### 6.5 Reputation and fiduciary risk (continued)

Through its policies and practices Boubyan ensures proper screening of clients' risk profiles and performance expectations is conducted prior to making investment products or services available to them. Furthermore, once a product or service is sold, appropriate risk and performance projections are clearly communicated, and funds placed under management are treated with due care and professionalism.

During the year, assets under management at the Group increased by **27.6%** to reach **KD 660,123 thousand** on 31 December 2021 (31 December 2020: increased by 48.4% to reach KD 517,186 thousand).

### 6.6 Non-Financial Risk

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

### 6.6.1 Operational Risk

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

The Bank monitors its operational risks through an Operational-Risk Management Framework which defines roles and responsibilities for managing and reporting operational risk. The key components of this framework are Risk Control Self Assessments, comprehensive documented policies, procedures and internal controls. The framework also ensures that Data Confidentiality and Data Privacy across Group entities is maintained in accordance with local regulatory guidelines and global standards such as compliance to PA-DSS (Payment Application Data Security Standards), PCI-DSS (Payment Card Industry Security Standards), and European Union's GDPR (General Data Protection Regulation).

Through the framework, line management is able to identify, assess and decide in what form and scale it can accept, control and reduce operational risk, together with the form of risk-prevention measures which are necessary. Furthermore, it embeds a culture of transparency of information, escalation of key issues, and accountability for issue resolution. The Group's Risk Management collates and reviews actual loss data arising from the Group's day-to-day operations to continuously refine its control arrangements. The operational-risk framework is supplemented by regular reviews from the Bank internal audit function.

The Group's business processes are closely monitored to identify, assess, control and prevent potentially illicit use of the Group's services for laundering money and/or financing terrorism. The Group's "anti-money laundering" and "combating terrorism-financing" initiatives are regularly reviewed to ensure full compliance with legal and regulatory requirements and international best practices.

### 6.6.2 Fraud Risk

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

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

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

**6. GROUP RISK MANAGEMENT (CONTINUED)**

**6.6 Non-Financial Risk (continued)**

**6.6.3 Technology Risk**

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

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

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

**6.6.4 Business Continuity and Sustainability**

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

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

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

**6.7 Information Security and Cyber Risk**

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

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

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

**6. GROUP RISK MANAGEMENT (CONTINUED)**

**6.8 Risk Management Information System (MIS) & Risk Analytics**

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

**7. COMPLIANCE WITH SHARI'A PRINCIPLES**

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

The violations related to compliance of Sharia's principles for the year ended 31 December 2021 is **KD 44 thousand**, (31 December 2020: KD 3 thousand).

The Shari's Supervisor Board's remuneration for the year ended 31 December 2021 is **KD 102 thousand**, (31 December 2020: KD 102 thousand).

**8. INVESTMENT ACCOUNTS**

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

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

**Saving Investment Accounts**

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

**Fixed-Term Deposit Investment Accounts**

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

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

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

## 9. COMPOSITION OF CAPITAL

### 9.1 Composition of Regulatory Capital

For regulatory purposes, the capital base is divided into:

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

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

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

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

The below table summarizes the composition of capital and ratios:

| Table 15 | 2021<br>KD '000s | 2020<br>KD '000s |
|---|---|---|
| Common Equity Tier 1 Capital before regulatory adjustments | **598,195** | 579,914 |
| **Less:** | | |
| Total regulatory adjustments to Common Equity Tier 1 | **30,667** | 21,454 |
| Deductions from Capital Base arising from Investments in FIs where ownership is > 10% | **-** | - |
| **Common Equity Tier 1 Capital (CET1)** | **567,528** | 558,460 |
| Additional Tier 1 Capital (AT1) | **149,544** | 78,015 |
| **Tier 1 Capital (T1 = CET1 + AT1)** | **717,072** | 636,475 |
| Tier 2 Capital (T2) | **58,354** | 51,864 |
| **Total Capital (TC = T1 + T2)** | **775,426** | 688,339 |
| | | |
| Total risk-weighted assets | **4,727,562** | 4,083,632 |
| | | |
| **Capital ratios and buffers** | | |
| Common Equity Tier 1 Capital (as percentage of risk-weighted assets) | **12.00%** | 13.68% |
| Tier 1 Capital (as percentage of risk-weighted assets) | **15.17%** | 15.59% |
| Total Regulatory Capital (as percentage of risk-weighted assets) | **16.40%** | 16.86% |
| | | |
| **National minima** | | |
| Common Equity Tier 1 minimum ratio | **7.00%** | 7.00% |
| Tier 1 minimum ratio | **8.50%** | 8.50% |
| Total capital minimum ratio excluding Capital Conservation, Counter-Cyclical and D-SIB buffers | **10.50%** | 10.50% |
| | | |
| **Bank minima** | | |
| Common Equity Tier 1 minimum ratio including Capital Conservation buffer and D-SIB buffer | **10.50%** | 10.00% |
| Tier 1 minimum ratio | **12.00%** | 11.50% |
| Total capital minimum ratio excluding Counter-Cyclical buffer | **14.00%** | 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 Appendices Table 14.1.

## 10 RECONCILIATION REQUIREMENTS

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

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

31 December 2021

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

## 10. RECONCILIATION REQUIREMENTS (CONTINUED)

31 December 2020

| Table 16 - Step 1 and 2 of Reconciliation requirements | Balance sheet as in published financial statements KD '000s | Under regulatory scope of consolidation KD '000s | Reference |
|---|---|---|---|
| **Assets** | | | |
| Cash and balances with banks | 286,718 | 286,718 | |
| Deposits with Central Bank of Kuwait | 336,934 | 336,934 | |
| Deposits with other banks | 180,092 | 180,092 | |
| Islamic financing to customers | 4,823,266 | 4,823,266 | |
| *of which general provisions(netted above) capped for Tier 2 inclusion* | 48,361 | 48,361 | A |
| Investment in Sukuk | 523,046 | 523,046 | |
| Other investment securities | 103,182 | 103,182 | |
| Investment properties | 47,133 | 47,133 | |
| Other assets | 45,419 | 45,419 | |
| Property and equipment | 91,359 | 91,359 | |
| **Total assets** | 6,437,149 | 6,437,149 | |
| **Liabilities** | | | |
| Due to banks | 281,371 | 281,371 | |
| Depositors' accounts | 5,107,728 | 5,107,728 | |
| Medium term financing | 305,509 | 305,509 | |
| Other liabilities | 115,811 | 115,811 | |
| **Total liabilities** | 5,810,419 | 5,810,419 | |
| **Equity** | | | |
| Share capital | 302,827 | 302,827 | B |
| Share premium | 156,942 | 156,942 | C |
| Proposed bonus shares | 15,143 | 15,143 | D |
| Treasury shares | (54) | (54) | E |
| Statutory reserve | 35,512 | 35,512 | F |
| Voluntary reserve | 15,327 | 15,327 | G |
| Other reserves | (21,958) | (21,958) | H |
| Retained earnings | 14,123 | 14,123 | |
| *of which Retained Earnings eligible as CET1 Capital* | 62,353 | 62,353 | I |
| *of which Modification loss on deferral of financing instalments* | (48,232) | (48,232) | |
| **Equity attributable to equity holders of the Bank** | 517,860 | 517,860 | |
| Perpetual Tier 1 Sukuk | 75,388 | 75,388 | J |
| Non-controlling interests | 33,482 | 33,482 | |
| *of which limited recognition eligible as CET1 Capital* | 13,768 | 13,768 | K |
| *of which limited recognition eligible as AT1 Capital* | 2,627 | 2,627 | L |
| *of which limited recognition eligible as Tier 2 Capital* | 3,503 | 3,503 | M |
| **Total equity** | 626,730 | 626,730 | |
| **Total liabilities and equity** | 6,437,149 | 6,437,149 | |

## 10. RECONCILIATION REQUIREMENTS (CONTINUED)

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

**Table 17** **31 December 2021**

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

## 10. RECONCILIATION REQUIREMENTS (CONTINUED)

Table 17

31 December 2020

| Relevant row number in common disclosure template | Item | Component of regulatory capital KD '000s | Source based on reference letters of the balance sheet from step 2 |
|---|---|---|---|
| | **Common Equity Tier 1 capital: instruments and reserves** | | |
| 1 | Directly issued qualifying common share capital plus related stock surplus | 459,769 | B+C |
| 2 | Retained earnings | 62,353 | I |
| 3 | Accumulated other comprehensive income (and other reserves) | 44,024 | D+F+G+H |
| 5 | Common share capital issued by subsidiaries and held by third parties | 13,768 | K |
| **6** | **Common Equity Tier 1 Capital before regulatory adjustments** | **579,914** | |
| | **Common Equity Tier 1 capital : regulatory adjustments** | | |
| 8 | Goodwill (net of related tax liability) | - | |
| 9 | Other intangibles other than mortgage-servicing rights (net of related tax liability) | 15,476 | |
| 10 | Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability) | 5,924 | |
| 16 | Investments in own shares (if not already netted off paid-in capital on reported balance sheet) | 54 | E |
| 18 | Deductions from Capital Base arising from Investments in FIs where ownership is > 10% | - | |
| **28** | **Total regulatory adjustments to Common Equity Tier 1** | **21,454** | |
| **29** | **Common Equity Tier 1 capital (CET1)** | **558,460** | |
| | **Additional Tier 1 capital : instruments** | | |
| 30 | Directly issued qualifying Additional Tier 1 instruments plus related stock surplus | - | |
| 34 | Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1) | 78,015 | J+L |
| **36** | **Additional Tier 1 capital before regulatory adjustments** | **78,015** | |
| | **Additional Tier 1 capital : regulatory adjustments** | | |
| 43 | Total regulatory adjustments to Additional Tier 1 capital | - | |
| **44** | **Additional Tier 1 capital (AT1)** | **78,015** | |
| **45** | **Tier 1 capital (T1 = CET1 + AT1)** | **636,475** | |
| | **Tier 2 capital : instruments and provisions** | | |
| 48 | Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2) | 3,503 | M |
| 50 | General Provisions included in Tier 2 Capital | 48,361 | A |
| **51** | **Tier 2 Capital before regulatory adjustments** | **51,864** | |
| | **Tier 2 Capital : regulatory adjustments** | | |
| 57 | Total regulatory adjustments to Tier 2 capital | - | |
| **58** | **Tier 2 Capital (T2)** | **51,864** | |
| **59** | **Total capital (TC = T1 + T2)** | **688,339** | |

## 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:

| | **2021** | 2020 |
|---|---|---|
| **Table 18** | | |
| Tier 1 Capital (KD '000s) | **717,072** | 636,475 |
| Total Exposures (KD '000s) | **7,652,065** | 6,794,257 |
| **Leverage Ratio (%)** | **9.37%** | 9.37% |

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

| | **2021** | **2020** |
|---|---|---|
| **Table 19** | **KD '000s** | KD '000s |
| On-balance sheet exposures | **7,317,824** | 6,437,150 |
| Exposures to Sharia compliant hedging contracts | **11,489** | 9,431 |
| Off-balance sheet items | **322,752** | 347,676 |
| **Total Exposures** | **7,652,065** | 6,794,257 |

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

### 11.1 Leverage Ratio Reconciliation

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

| | **2021** | 2020 |
|---|---|---|
| **Table 20** | **KD '000s** | KD '000s |
| **Item** | | |
| Total consolidated assets as per published financial statements | **7,351,899** | 6,437,150 |
| Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation | **-** | - |
| Adjustment for fiduciary assets recognized on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure | **-** | - |
| Adjustments for Exposures to Sharia compliant hedging contracts | **11,489** | 9,431 |
| Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures) | **322,752** | 347,676 |
| Other adjustments | **(34,075)** | - |
| **Leverage ratio exposure** | **7,652,065** | 6,794,257 |

## 12. LIQUIDITY COVERAGE RATIO DISCLOSURE

### 12.1 Introduction

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

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

### 12.2 Definition

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

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

### 12.3 Regulatory Scope of Reporting and Consolidation

The LCR is reported at local level, including head office and its branches in Kuwait.

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

### 12.4 Liquidity Policy and Contingency Funding Plan

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

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

### 12.5 Funding Strategy and Liquidity Management

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

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

### 12.6 Results Analysis and Main Drivers

The Group's HQLA during the three months ended 31 December 2021, averaged **KD 715 million** (post-haircut) against an average net cash-outflow of **KD 378 million**. The daily-average LCR for the observed period was **189.25%.**

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 **73%** 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 2021 and 31 December 2021 for the Bank at Local level.

**Table 21**

value in KD '000s

| SL. | Description | Value before applying flow rates (average)** | Value after applying flow rates[1] (average)** |
|---|---|---|---|
| **High-Quality Liquid Assets (HQLA)** | | | |
| 1 | Total HQLA (before adjustments) | | **714,866** |
| **Cash Outflows** | | | |
| 2 | Retail deposits and small business | **1,704,861** | **257,071** |
| 3 | · Stable deposits | 9,446 | 472 |
| 4 | · Less stable deposits | 1,695,415 | 256,599 |
| 5 | Deposit, investment accounts and unsecured wholesale funding excluding the deposits of small business customers: | **1,322,709** | **928,101** |
| 6 | · Operational deposits | - | - |
| 7 | · Non-operational deposits (other unsecured commitments) | 1,322,709 | 928,101 |
| 8 | Secured Funding | | - |
| 9 | Other cash outflows, including: | **86,532** | **8,653** |
| 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 | 86,532 | 8,653 |
| 13 | Other contingent funding obligations | **1,176,544** | **58,827** |
| 14 | Other contractual cash outflows obligations | **109,091** | **109,091** |
| 15 | **Total Cash Outflows** | | **1,361,744** |
| **Cash Inflows** | | | |
| 16 | Secured lending transactions | - | - |
| 17 | Inflows from the performing exposures (as per the counterparties) | **1,372,891** | **975,210** |
| 18 | Other cash Inflows | **8,800** | **8,800** |
| 19 | **Total Cash Inflows** | **1,381,691** | **984,010** |
| | **LCR** | | **Total Adjusted Value [2]** |
| 20 | Total HQLA (after adjustments) | | **714,866** |
| 21 | Net Cash Outflows | | **377,734** |
| 22 | LCR | | **189.25%** |

* Quarterly statement.

**Simple Average for all business days of the template reporting period.

1 Is the value after the application of respective haircuts for HQLA, inflow and outflow rates.

2 Adjusted values must be calculated after the application of both (i) haircuts and inflow and outflow rates and (ii) any applicable caps (i.e. cap on Level 2B and Level 2 assets for HQLA and cap on inflows).

## 13. REMUNERATION DISCLOSURE

### 13.1 Qualitative Information

#### 13.1.1 Governance bodies

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

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

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

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

**Senior Management:** includes all employees in the positions of Assistant General Manager and above and staff whose hiring are subject to approval of regulators. The number of employees in this category as at 31 December 2021 was **47 employees**, (31 December 2020: 40 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 2021 was **23 employees**, (31 December 2020: 24 employees).

**Financial and Risk Control:** includes all head of divisions and head of groups in Financial Control, Risk Management, Compliance, Internal Audit and Anti-Money Laundering functions. The number of employees in this category as at 31 December 2021 was **18 employees**, (31 December 2020: 21 employees).

#### 13.1.2 Remuneration Structure and design

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

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

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

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

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

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

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

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

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

## 13. REMUNERATION DISCLOSURE (CONTINUED)

### 13.1 Qualitative Information (continued)

#### 13.1.3 An Overview on the Key Performance Indicators

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

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

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

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

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

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

#### 13.1.4 Remuneration Adjustments

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

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

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

#### 13.1.5 Types of Remuneration Components

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

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

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

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

## 13. REMUNERATION DISCLOSURE (CONTINUED)

### 13.2 Quantitative Information

During the year, the Board Nomination and Remuneration Committee met **4 times**, (31 December 2020: 4 times).

The total remuneration paid to the Committee members was **KD 10 thousand**, (31 December 2020: 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 2021 was **54 employees** and they represent **5.92%** of the total number of employees (31 December 2020: 50 employees representing 6.72% of the total number of employees).

The number of employees who received sign-on awards or guaranteed bonuses during 2021 was **Nil** (31 December 2020: Nil).

The total amount of end-of-service benefit paid during 2021 was **KD 261 thousand**; this is related to **7 employees** (31 December 2020: KD 225 thousand related to 5 employees).

The total amount of outstanding deferred remuneration as at 31 December 2021 was KD **2,928 thousand** (31 December 2020: KD 3,057 thousand).

Total amount of deferred remuneration paid during 2021 was **KD 810 thousand** (31 December 2020: KD 819 thousand).

Total salaries & remuneration granted during reported period

***Senior Management***

| | **2021** | | 2020 | |
|---|---|---|---|---|
| | **Unrestricted** | **Deferred** | Unrestricted | Deferred |
| **Table 22** | **KD '000s** | **KD '000s** | KD '000s | KD '000s |
| **Fixed remuneration:** | | | | |
| - Cash | **4,742** | **-** | 4,325 | - |
| - Others (refer note below) | **-** | **909** | - | 680 |
| **Variable remuneration:** | | | | |
| - Cash | **1,598** | **-** | 685 | - |
| - DCC (Deferred cash payment) | **-** | **1,490** | - | 965 |

***Material Risk Takers****

| | **2021** | | 2020 | |
|---|---|---|---|---|
| | **Unrestricted** | **Deferred** | Unrestricted | Deferred |
| **Table 23** | **KD '000s** | **KD '000s** | KD '000s | KD '000s |
| **Fixed remuneration:** | | | | |
| - Cash | **2,403** | **-** | 2,431 | - |
| - Others (refer note below) | **-** | **419** | - | 418 |
| **Variable remuneration:** | | | | |
| - Cash | **930** | **-** | 400 | - |
| - DCC (Deferred cash payment) | **-** | **893** | - | 592 |

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

***Employees Category***

| | **2021** | | 2020 | |
|---|---|---|---|---|
| **Table 24** | **Number of employees** | **Remuneration Fixed and Variable KD '000s** | Number of employees | Remuneration Fixed and Variable KD '000s |
| Senior Management | **47** | **8,739** | 40 | 6,655 |
| Material Risk Takers* | **23** | **4,644** | 24 | 3,841 |
| Financial and Risk Control | **18** | **1,958** | 21 | 1,840 |

* Material Risk Takers are identified as Senior Management

## 14. APPENDICES

### 14.1 Regulatory Capital Composition: Common Disclosure Template

| Row Number | Item | 2021 KD '000s | 2020 KD '000s |
|---|---|---|---|
| | **Common Equity Tier 1 Capital: instruments and reserves** | | |
| 1 | Directly issued qualifying common share capital plus related stock surplus | 317,970 | 459,769 |
| 2 | Retained earnings | 40,274 | 62,355 |
| 3 | Accumulated other comprehensive income (and other reserves) | 225,626 | 44,022 |
| 5 | Common share capital issued by subsidiaries and held by third parties | 14,325 | 13,768 |
| 6 | **Common Equity Tier 1 capital before regulatory adjustments** | **598,195** | 579,914 |
| | **Common Equity Tier 1 Capital : regulatory adjustments** | | |
| 9 | Other intangibles other than mortgage-servicing rights (net of related tax liability) | **(23,507)** | (15,477) |
| 10 | Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability) | **(7,106)** | (5,923) |
| 16 | Investments in own shares (if not already netted off paid-in capital on reported balance sheet) | **(54)** | (54) |
| 28 | **Total regulatory adjustments to Common Equity Tier 1** | **(30,667)** | (21,454) |
| 29 | **Common Equity Tier 1 Capital after the regulatory adjustments (CET1)** | **567,528** | 558,460 |
| | **Additional Tier 1 Capital : instruments** | | |
| 30 | Directly issued qualifying Additional Tier 1 instruments plus related stock surplus | 150,385 | 75,388 |
| 34 | Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1) | 2,567 | 2,627 |
| 36 | **Additional Tier 1 Capital before regulatory adjustments** | **152,952** | 78,015 |
| | **Additional Tier 1 Capital : regulatory adjustments** | | |
| 39 | Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold) | **(3,408)** | - |
| 43 | **Total regulatory adjustments to Additional Tier 1 capital** | **(3,408)** | - |
| 44 | **Additional Tier 1 capital (AT1)** | **149,544** | 78,015 |
| 45 | **Tier 1 Capital (T1 = CET1 + AT1)** | **717,072** | 636,475 |
| | **Tier 2 Capital : instruments and provisions** | | |
| 48 | Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2) | 3,423 | 3,503 |
| 50 | General Provisions included in Tier 2 Capital | 56,433 | 48,361 |
| 51 | **Tier 2 capital before regulatory adjustments** | **59,856** | 51,864 |
| | **Tier 2 Capital: regulatory adjustments** | | |
| 54 | Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold) | **(1,502)** | - |
| 57 | **Total regulatory adjustments to Tier 2 Capital** | **(1,502)** | - |
| 58 | **Tier 2 Capital (T2)** | **58,354** | 51,864 |
| 59 | **Total Capital (TC = T1 + T2)** | **775,426** | 688,339 |
| 60 | **Total risk-weighted assets** | **4,727,562** | 4,083,632 |
| | **Capital ratios and buffers** | | |
| 61 | Common Equity Tier 1 (as percentage of risk-weighted assets) | **12.00%** | 13.68% |
| 62 | Tier 1 (as percentage of risk-weighted assets) | **15.17%** | 15.59% |
| 63 | Total capital (as percentage of risk-weighted assets) | **16.40%** | 16.86% |
| | **National minima** | | |
| 69 | Common Equity Tier 1 minimum ratio | **7.00%** | 7.00% |
| 70 | Tier 1 minimum ratio | **8.50%** | 8.50% |
| 71 | Total capital minimum ratio excluding Capital Conservation, Counter-Cyclical and D-SIB buffers | **10.50%** | 10.50% |

## 14. APPENDICES (CONTINUED)

### 14.2 Leverage Ratio: Common Disclosure Template

| | Item | 2021 KD '000s | 2020 KD '000s |
|---|---|---|---|
| | **On-balance sheet exposures** | | |
| 1 | On-balance sheet items (excluding Sharia compliant hedging contracts, but including collaterals) | **7,351,899** | 6,437,150 |
| 2 | (Asset amounts deducted in determining Basel III Tier 1 Capital) | **(34,075)** | - |
| **3** | **Total on-balance sheet exposures (excluding Sharia compliant hedging contracts) (sum of lines 1 and 2)** | **7,317,824** | 6,437,150 |
| | **Exposures to Sharia compliant hedging contracts** | | |
| 4 | Replacement cost associated with all Sharia compliant hedging contracts (i.e. net of eligible cash variation margin) | **2,150** | 3,684 |
| 5 | Add-on amounts for potential future exposures " PFE" associated with all Sharia compliant hedging contracts | **9,339** | 5,747 |
| 6 | Gross-up for the collateral of Sharia compliant hedging contracts provided where deducted from the balance sheet assets pursuant to the Group's accounting policy. | **-** | - |
| 7 | (Deductions of receivables assets for cash variation margin provided in with all Sharia compliant hedging contracts ) | **-** | - |
| 8 | (Group's exposures to exempted Central counter parties "CCP" ) | **-** | - |
| **9** | **Total exposures of Sharia compliant hedging contracts (sum of lines 4 to 8)** | **11,489** | 9,431 |
| | **Other off-balance sheet exposures** | | |
| 10 | Off-balance sheet exposure (before any adjustment for credit conversion factors) | **1,303,969** | 1,416,421 |
| 11 | (Adjustments for conversion to credit equivalent amounts) | **(981,217)** | (1,068,745) |
| **12** | **Off-balance sheet items (sum of lines 10 and 11)** | **322,752** | 347,676 |
| | **Capital and total exposures** | | |
| **13** | **Tier 1 Capital** | **717,072** | 636,475 |
| **14** | **Total exposures (sum of lines 3, 9,12)** | **7,652,065** | 6,794,257 |
| | **Leverage ratio** | | |
| **15** | **Leverage ratio (Tier 1 Capital (13)/total exposures (14))** | **9.37%** | 9.37% |

## 14. APPENDICES (CONTINUED)

### 14.3 Regulatory Capital: Main Features Template

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

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

# Report of Sharia Supervisory Board

Date: 26 Jumada al-Ola 1443 A.H.
Corresponding to: 30 December 2021

In the Name of Allah, Most Gracious, Most Merciful

**Report of the Sharia Supervisory Board**
From 01.01.2021 to 31.12.2021

**To the Shareholders of Boubyan Bank**

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

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

We, at the Sharia Supervisory Board of Boubyan Bank, have monitored and reviewed the principles adopted and the contracts pertinent to the transactions of the Bank for the period from 01/01/2021 to 31/12/2021. We have observed the due review and revision necessary to express our opinion on the Bank's compliance with the rulings and principles of the Noble Islamic Sharia as well as its compliance with the Fatwa, resolutions, principles and guidelines previously issued or set by the Board. The management of the Bank is entrusted with the implementation of such rulings, principles, and Fatwa while the Board's responsibility is limited to expressing an independent opinion in light of the transactions submitted and presented thereto.

We have exercised proper observation and review that covered review of contracts and procedures followed at the Bank by testing each type of transactions, and we have obtained all the information and explanations necessary to express an opinion on the extent to which the Bank's activities are in compliance with the rulings of the Noble Islamic Sharia. In our opinion, Boubyan Bank's contracts, documents and operations during the period from 1-1-2021 to 31-12-2021, presented to us, have been concluded as per the rulings and principles of the Noble Islamic Sharia. The Board has further verified that any revenues, which were unintentionally generated for the bank without compliance with the rulings of the Noble Islamic Sharia, have been excluded.

The Sharia Supervisory Board held 14 meetings, and below is the attendance record for the members of the Sharia Supervisory Board:

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

These meetings issued (49) Sharia-related resolutions, covering contracts and various Sharia-related inquiries. We invoke Almighty Allah to rightly guide the Bank's management to better serve our noble religion, our dear country and to put everyone on the right path. Verily, Allah is the Arbiter of All Success Peace be with you.

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

Sheikh Dr. Abdulaziz Khalifa Al-Qasar

Sheikh Dr. Esame Khalaf Al-Enezi

Sheikh Dr. Mohammed Awad Al-Fuzaie

Sheikh Dr. Ali Ibrahim Al-Rashid

# External Sharia Auditor's Report

**Al Mashora & Al Raya for Islamic Financial Consulting**

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

**Subject: Report of The External Sharia Auditor**
**for the Financial Year Ended December 31st 2021**

***External Sharia Auditor's Responsibility***

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

***Boubyan Bank's Responsibility***

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

***Procedures & Findings of the External Sharia Audit***

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

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

***Field Visits & Findings***

To comply with the health precautions associated with the outbreak of the Covid-19 pandemic and the relevant variants, we communicated with the bank's executive departments through meetings, conference calls, video calls and emails. We have noted down the findings of these meetings as 12 meetings were held via conference or video calls.

***Final Independent Opinion of the External Sharia Auditor***

We believe that the audit work we have made for the bank's business covering the period from 01.01.2021 to 31.12.2021 provides a reasonable basis to express our independent opinion. As per the information, clarifications, and assurances we have obtained, which we deem necessary to provide us with sufficient evidence to give reasonable assurance that the executive departments at the bank have complied with the resolutions and Fatwas of the Sharia Supervisory Board, and in light of the above, the external Sharia audit firm has concluded that Boubyan Bank has complied with the rulings and principles of the Noble Islamic Sharia as per the resolutions and Fatwas of the Sharia Supervisory Board.

**Dr. Abdulaziz Khalaf Jarallah**

Boubyan Bank

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

# Consolidated Financial Statements and Independent Auditors’ Report

for the year ended 31 December 2021

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Building a better working world

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

## Report on the Audit of the Consolidated Financial Statements

### Opinion

We have audited the consolidated financial statements of Boubyan Bank K.S.C.P (the "Bank") and its subsidiaries (together, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2021, and the related consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs"), as adopted by the Central Bank of Kuwait ("CBK") for use by the State of Kuwait.

### Basis for Opinion

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

### Key Audit Matters

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

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

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

**Key Audit Matters (continued)**

We have identified the following key audit matter:

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

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

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

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

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

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

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

**Key Audit Matters (continued)**

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

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

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

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

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

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

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

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

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

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

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

**Auditors' Responsibilities for the Audit of the Consolidated Financial Statements**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Report on Other Legal and Regulatory Requirements**

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

We further report that, during the course of our audit, we have not become aware of any violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the CBK and the organisation of banking business, and its related regulations during the year ended 31 December 2021 that might have had a material effect on the business of the Bank or on its financial position.

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

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

26 January 2022
Kuwait

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2021

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

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

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

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2021

| | 2021 KD'000s | 2020 KD'000s |
|---|---|---|
| **Net profit for the year** | **47,955** | 33,547 |
| **Other comprehensive income/(loss)** | | |
| **Items that are or may be reclassified to consolidated statement of profit or loss in subsequent periods:** | | |
| Change in fair value of debt investments at fair value through other comprehensive income | **4,789** | (2,861) |
| Foreign currency translation adjustments | **(1,839)** | 687 |
| **Items that will not be reclassified to consolidated statement of profit or loss in subsequent periods:** | | |
| Change in fair value of equity investments at fair value through other comprehensive income | **(157)** | (5,669) |
| Re-measurement loss on post-employment benefits (note 19). | **(484)** | (3,092) |
| **Other comprehensive income/(loss) for the year** | **2,309** | (10,935) |
| **Total comprehensive income for the year** | **50,264** | 22,612 |
| **Attributable to:** | | |
| Equity holders of the Bank | **51,636** | 21,784 |
| Non-controlling interests | **(1,372)** | 828 |
| **Total comprehensive income for the year** | **50,264** | 22,612 |

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

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Boubyan Bank

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

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

**Abdulaziz Abdullah Dakheel Al-Shaya**
**Chairman**

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

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

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

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

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

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

## 1. INCORPORATION AND ACTIVITIES

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

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

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

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

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

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

The consolidated financial statements were authorised for issue by the Board of Directors on 9 January 2022 and the shareholders have the power to amend these consolidated financial statements at the annual assembly meeting.

## 2. BASIS OF PREPARATION

### 2.1 Statement of compliance

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

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

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

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

### 2.2 Basis of measurement

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

### 2.3 Functional and presentation currency

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

### 2.4 Changes in accounting policies and disclosures

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the previous year except for the adoption of certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2021. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

## 2. BASIS OF PREPARATION (CONTINUED)

### 2.4 Changes in accounting policies and disclosures (continued)

**Amendments to IFRS 16 Covid-19 Related Rent Concessions**

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

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

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

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

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

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

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

**Financial assets and liabilities**

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

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

**Derivatives held for hedging purposes**

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

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

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

## 2. BASIS OF PREPARATION (CONTINUED)

### 2.5 New standards and interpretations not yet adopted

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

## 3 SIGNIFICANT ACCOUNTING POLICIES

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

### 3.1 Basis of consolidation

The consolidated financial statements comprise the Bank and its principal operating subsidiaries (collectively "the Group") - Boubyan Takaful Insurance Company K.S.C (Closed) , Boubyan Capital Investment Company K.S.C (Closed) and BLME Holdings plc, as at 31 December 2021 and which are controlled by the Bank as set out in note 15.

### 3.1.1 Business combinations

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

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

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

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

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

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

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

### 3.1.2 Non-controlling interests

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

### 3.1.3 Subsidiaries

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.1 Basis of consolidation (continued)

**3.1.4 Loss of control**

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

**3.1.5 Investments in associates (equity-accounted investees)**

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

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

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

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

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

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

**3.1.6 Transactions eliminated on consolidation**

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

### 3.2 Foreign currency

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

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

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.3 Revenue recognition

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

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

### 3.4 Government grants

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

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

### 3.5 Financial instruments

#### 3.5.1 Financial assets

**a) Trade and settlement date accounting**

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

**b) Recognition and derecognition of financial assets**

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

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

**c) Classification and Measurement of Financial assets**

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

**Cash and cash equivalents**

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

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

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

**Murabaha**

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

**Wakala**

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

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**3.5 Financial instruments (continued)**

**3.5.1 Financial assets (continued)**

**c) Classification and Measurement of Financial assets (continued)**

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

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

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

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

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

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

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

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

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

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

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**3.5 Financial instruments (continued)**

**3.5.1 Financial assets (continued)**

**c) Classification and Measurement of Financial assets (continued)**

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

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

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

*(i) Financial assets measured at amortised cost:*

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

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

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

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

**(i) Debt Securities (Sukuk) at FVOCI**

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

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

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

**(ii) Equity investments at FVOCI**

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.5 Financial instruments (continued)

### 3.5.1 Financial assets (continued)

#### c) Classification and Measurement of Financial assets (continued)

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

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

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

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

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

Equity investments are not subject to Expected Credit Losses.

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

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

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.5 Financial instruments (continued)

### 3.5.1 Financial assets (continued)

#### d) Impairment of financial assets (continued)

**Expected Credit Losses (continued)**

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

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

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

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

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

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

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.5 Financial instruments (continued)

### 3.5.1 Financial assets (continued)

#### d) Impairment of financial assets (continued)

**Expected Credit Losses (continued)**

**Modification of Islamic financing to customers**

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

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

**Write off**

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

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

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

**Provision for credit losses in accordance with CBK instructions**

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

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

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

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

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.5 Financial instruments (continued)

#### 3.5.2 Financial liabilities

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

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

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

**Due to banks and depositors' accounts**

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

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

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

**Saving Investment Accounts**

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

**Fixed-Term Deposit Investment Accounts**

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

**Open –Term Deposit Investment Accounts**

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

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

**Medium term financing**

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

#### 3.5.3 Offsetting

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

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

### 3.6 Fair values

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

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

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

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.6 Fair values (continued)

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

### 3.7 Derivatives

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

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

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

### 3.8 Investment properties

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

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

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

### 3.9 Property and equipment

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

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

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

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

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

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

### 3.10 Leases – Group as a lessee

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.10 Leases – Group as a lessee (continued)

*a) Right-of-use assets*

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

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

*b) Lease liabilities*

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

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

### 3.11 Impairment of non- financial assets

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

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

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

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

### 3.12 Provisions

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.13 Contingent liabilities and contingent assets

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

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

### 3.14 Segment reporting

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

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

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

### 3.15 Treasury shares

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

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

### 3.16 Post-employment benefits

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

### 3.17 Kuwait Foundation for the Advancement of Sciences (KFAS)

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

### 3.18 National Labour Support Tax (NLST)

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

### 3.19 Zakat

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

### 3.20 Financial guarantees

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.21 Fiduciary assets

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

## 4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

### 4.1 Critical judgments in applying the Group's accounting policies

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

**Fair value hierarchy**

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

**Classification of financial assets**

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

### 4.2 Key sources of estimation uncertainty

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

**Expected Credit Losses on financial assets**

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

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

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

**Impairment losses on Islamic finance facilities**

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

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

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

### 4.2 Key sources of estimation uncertainty (continued)

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

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

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

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

## 5. MURABAHA AND OTHER ISLAMIC FINANCING INCOME

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

## 6. NET INVESTMENT INCOME

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

## 7. NET FEES AND COMMISSION INCOME

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

## 8. PROVISION FOR IMPAIRMENT

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

## 8. PROVISION FOR IMPAIRMENT (CONTINUED)

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

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

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

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

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

## 9. TAXATION

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

## 10. BASIC AND DILUTED EARNING PER SHARE

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

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

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

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

## 11. CASH AND CASH EQUIVALENTS

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

## 12. DEPOSITS WITH OTHER BANKS

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

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

## 13. ISLAMIC FINANCING TO CUSTOMERS

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

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

## 13. ISLAMIC FINANCING TO CUSTOMERS (CONTINUED)

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

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

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

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

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

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

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

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

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

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

## 13. ISLAMIC FINANCING TO CUSTOMERS (CONTINUED)

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

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

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

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

## 14. INVESTMENT SECURITIES

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

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

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

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

## 15. SUBSIDIARIES

### 15.1 Details of principal operating subsidiaries are as follows:

| Name of subsidiary | Country of incorporation | Principal activity | Effective ownership % | |
|---|---|---|---|---|
| | | | **2021** | 2020 |
| Boubyan Takaful Insurance Company K.S.C. (Closed) | Kuwait | Takaful insurance | **79.49** | 79.49 |
| Boubyan Capital Investment Company K.S.C. (Closed) | Kuwait | Islamic investments | **100.00** | 100.00 |
| BLME Holdings Plc, ("BLME") | United Kingdom | Islamic Banking | **71.08** | 71.08 |

### 15.2 Material partly-owned subsidiary

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

**Proportion of equity interest held by non-controlling interests:**

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

## 15. SUBSIDIARIES (CONTINUED)

### 15.2 Material partly-owned subsidiary (continued)

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

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

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

**Summarised consolidated statement of financial position as at:**

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

**Summarised consolidated statement of cash flows for year ended:**

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

## 16. INVESTMENT PROPERTIES

The movement in the investment properties is as follows:

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

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

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

## 17. OTHER ASSETS

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

## 18. MEDIUM TERM FINANCING

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

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

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

## 19. OTHER LIABILITIES

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

**Post-Employment Benefit**

The present value of defined benefit obligation and the related current and past service cost was determined by actuarial valuations using the projected unit credit method. The significant inputs used in the actuarial valuation were a discount rate of **3.75%** (2020: 3.75%), future salary increases in line with expected consumer price inflation and demographic assumptions of mortality, withdrawal, retirement and disability rates.

## 20. SHARE CAPITAL

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

## 21. SHARE PREMIUM

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

## 22. DIVIDEND

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

The board of directors recommended distribution of cash dividends of **5** fils per share and bonus share of **5%** for the year ended 31 December 2021. The proposed dividends, if approved by the shareholders' general assembly, shall be payable to the shareholders after obtaining the necessary regulatory approvals.

## 23. TREASURY SHARES

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

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

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

## 24. STATUTORY RESERVE

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

## 25. OTHER RESERVES

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

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

**Voluntary reserve**

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

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

## 26. PERPETUAL TIER 1 SUKUK

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

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

## 27. RELATED PARTY TRANSACTIONS

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

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

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

**Compensation of key management personnel:**

Details of compensation for key management comprise the following:

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

## 28. CONTINGENCIES AND COMMITMENTS

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

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

## 29. SEGMENT REPORTING

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

**Business Segments**

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

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

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

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

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

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

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

*Geographical segment*

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

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

## 30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

### 30.1 Introduction and overview

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

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

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

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

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

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

### 30.2 Credit risk

#### 30.2.1 Assessment of expected credit losses

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

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

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

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

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

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

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

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

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

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

**30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)**

**30.2 Credit risk (continued)**

**30.2.1 Assessment of expected credit losses *(continued)***

**Significant increase in credit risk**

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

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

**Measurement of ECLs**

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

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

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

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

**Incorporation of forward-looking information**

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

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

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

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

## 30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

### 30.2 Credit risk (continued)

### 30.2.1 Assessment of expected credit losses (continued)

**Internal rating and PD estimation process**

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

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

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

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

**Exposure at default**

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

**Loss given default**

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

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

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

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

**Collateral and other credit enhancements**

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

## 30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

### 30.2 Credit risk (continued)

#### 30.2.3 Risk Concentration of the maximum exposure to credit risk

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

Credit risk can also arise due to a significant concentration of Group's assets to any single counterparty. This risk is managed by diversification of the portfolio. The 20 largest Islamic financing facilities outstanding as a percentage of gross facilities as at 31 December 2021 are **23.42%** (2020: 21.47%).

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

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

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

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

**30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)**

**30.2 Credit risk (continued)**

**30.2.4 Credit quality per class of financial assets**

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

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

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

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

## 30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

### 30.2 Credit risk (continued)

#### 30.2.4 Credit quality per class of financial assets (continued)

Ageing analysis of past due or impaired financial assets:

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

At 31 December 2021 management estimates the fair value of collaterals held against individually past due and impaired Islamic finance facilities to KD **70,427 thousand** (2020: KD 90,961 thousand).

### 30.3 Market risk

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

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

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

### 30.4 Foreign currency risk

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

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

## 30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

### 30.4 Foreign currency risk (continued)

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

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

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

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

For such investments classified as FVOCI, a five percent increase in stock prices as at 31 December 2021 would have increased equity by **KD 993 thousand** (2020: an increase of KD 871 thousand). An equal change in the opposite direction would have had equal, but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

### 30.5 Liquidity risk

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

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

**30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)**

**30.5 Liquidity risk (continued)**

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

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

## 30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

### 30.5 Liquidity risk (continued)

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

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

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

### 30.6 Profit Rate Risk

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

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

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

### 30.7 Operational risk

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

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

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

## 30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

### 30.8 Fair value of financial instruments

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

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

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

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

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

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

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

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

## 30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

### 30.8 Fair value of financial instruments (continued)

**Fair value hierarchy (continued)**

The significant unobservable inputs used in the fair value measurement categorised within Level 3 of the fair value hierarchy together with a quantitative sensitivity analysis as at 31 December 2021 are not material.

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

### 30.9 Capital management

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

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

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

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

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

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

The disclosures relating to the capital adequacy regulations issued by Central Bank of Kuwait as stipulated in Central Bank of Kuwait's circular number 2/RB, RBA/336/2014 dated 24 June 2014 and disclosures related to financial leverage ratio as stipulated in Central Bank of Kuwait's circular number 2/RBA/ 343/2014 dated 21 October 2014 for the year ended 31 December 2021 are included under the 'Risk Management' section of the annual report.

## 31. DERIVATIVES

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

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

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

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

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

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

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

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

## 32. FIDUCIARY ASSETS

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

## 33. IMPACT OF COVID-19

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

**Covid-19 support measures**
In 2020, Central Bank of Kuwait (CBK) implemented various measures targeted at reinforcing the banking sectors ability to play a vital role in the economy. Those measures are disclosed in the Group's annual consolidated financial statements for the year ended 31 December 2020.

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

## 33. IMPACT OF COVID-19 (CONTINUED)

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

**Expected Credit Loss (ECL) estimates**

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

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

**Other impacts**

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