

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



**INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION
AND INDEPENDENT AUDITORS' REVIEW REPORT FOR THE PERIOD
FROM 1 JANUARY 2019 TO 30 SEPTEMBER 2019
(UNAUDITED)**

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

**INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION
(UNAUDITED)**



For the period from 1 January 2019 to 30 September 2019

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Ernst & Young
Al Aiban, Al Osaimi & Partners
P.O. Box 74
18–20th Floor, Baitak Tower
Ahmed Al Jaber Street
Safat Square 13001, Kuwait

Tel: +965 2295 5000
Fax: +965 2245 6419
kuwait@kw.ey.com
ey.com/mena

Deloitte.

**Deloitte & Touche
Al-Wazzan & Co.**

Ahmed Al-Jaber Street, Sharq
Dar Al-Awadi Complex, Floors 7 & 9
P.O. Box 20174, Safat 13062
Kuwait

Tel : + 965 22408844, 22438060
Fax: + 965 22408855, 22452080
www.deloitte.com

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION TO THE BOARD OF DIRECTORS OF BOUBYAN BANK K.S.C.P.

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Boubyan Bank K.S.C.P. (the “Bank”) and its subsidiaries (collectively “the Group”) as at 30 September 2019, and the related interim condensed consolidated statement of profit or loss and the interim condensed consolidated statement of other comprehensive income for the three and nine months periods then ended, and the related interim condensed consolidated statement of changes in equity and interim condensed consolidated statement of cash flows for the nine months period then ended. The management of the Bank is responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with the basis of presentation set out in Note 2. Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial information is not prepared, in all material respects, in accordance with the basis of presentation set out in Note 2.

Report on other Legal and Regulatory Requirements

Furthermore, based on our review, the interim condensed consolidated financial information is in agreement with the books of accounts of the Bank. We further report that, to the best of our knowledge and belief, we have not become aware of any violations of the Companies Law No. 1 of 2016, as amended, and its executive regulations, as amended, or of the Bank’s Articles of Association and Memorandum of Incorporation, as amended, during the nine months period ended 30 September 2019 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 review, to the best of our knowledge and belief, we have not become aware of any violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organisation of banking business, and its related regulations, during the nine months period ended 30 September 2019 that might have had a material effect on the business of the Bank or on its financial position.

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

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

6 October 2019
Kuwait

BOUBYAN BANK K.S.C.P. AND SUBSIDIARIES
**INTERIM CONDENSED CONSOLIDATED STATEMENT
OF PROFIT OR LOSS (UNAUDITED)**


For the period from 1 January 2019 to 30 September 2019

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2019	2018	2019	2018
		KD'000s	KD'000s	KD'000s	KD'000s
Income					
Murabaha and other Islamic financing income		52,979	47,420	152,786	134,418
Finance cost and distribution to depositors		(23,397)	(16,209)	(64,797)	(43,757)
Net financing income		29,582	31,211	87,989	90,661
Net investment income	3	1,408	(1,125)	5,781	1,480
Net fees and commission income		3,413	3,470	12,761	10,610
Net foreign exchange gain		1,117	717	2,859	2,182
Operating income		35,520	34,273	109,390	104,933
Operating expenses					
Staff costs		(9,264)	(8,247)	(27,071)	(25,345)
General and administrative expenses	6	(4,284)	(3,939)	(11,251)	(13,013)
Depreciation	6	(1,962)	(1,081)	(5,847)	(3,176)
Operating expenses		(15,510)	(13,267)	(44,169)	(41,534)
Operating profit before provision for impairment		20,010	21,006	65,221	63,399
Provision for impairment	4	(2,963)	(5,794)	(17,922)	(21,153)
Operating profit before deductions		17,047	15,212	47,299	42,246
Taxation	5	(670)	(640)	(2,047)	(1,833)
Net profit for the period		16,377	14,572	45,252	40,413
Attributable to:					
Equity holders of the Bank		16,364	14,570	45,229	40,311
Non-controlling interests		13	2	23	102
Net profit for the period		16,377	14,572	45,252	40,413
Basic and diluted earnings per share attributable to the equity holders of the Bank (fils)	7	5.67	5.48	15.25	14.20

The notes from 1 to 16 form an integral part of this interim condensed consolidated financial information.

BOUBYAN BANK K.S.C.P. AND SUBSIDIARIES**INTERIM CONDENSED CONSOLIDATED STATEMENT
OF OTHER COMPREHENSIVE INCOME (UNAUDITED)**

For the period from 1 January 2019 to 30 September 2019

	Three months ended 30 September		Nine months ended 30 September	
	2019	2018	2019	2018
	KD'000s	KD'000s	KD'000s	KD'000s
Net profit for the period	16,377	14,572	45,252	40,413
Other comprehensive income / (loss) :				
Items that are or may be reclassified to interim condensed consolidated statement of profit or loss in subsequent periods:				
Change in fair value of debt investments at fair value through other comprehensive income	2,077	838	3,109	(874)
Foreign currency translation adjustments	(3)	3,005	428	452
Items that will not be reclassified to interim condensed consolidated statement of profit or loss in subsequent periods:				
Change in fair value of equity investments at fair value through other comprehensive income	(18)	(121)	231	(342)
Other comprehensive income / (loss) for the period	2,056	3,722	3,768	(764)
Total comprehensive income for the period	18,433	18,294	49,020	39,649
Attributable to:				
Equity holders of the Bank	18,420	18,292	48,997	39,547
Non-controlling interests	13	2	23	102
Total comprehensive income for the period	18,433	18,294	49,020	39,649

The notes from 1 to 16 form an integral part of this interim condensed consolidated financial information.

BOUBYAN BANK K.S.C.P. AND SUBSIDIARIES
**INTERIM CONDENSED CONSOLIDATED STATEMENT OF
FINANCIAL POSITION (UNAUDITED)**


As at 30 September 2019

	Notes	30 September 2019	(Audited) 31 December 2018	30 September 2018
		KD'000s	KD'000s	KD'000s
Assets				
Cash and balances with banks	8	211,576	83,805	76,559
Deposits with Central Bank of Kuwait		285,037	244,685	263,661
Deposits with other banks		316,072	237,088	208,918
Islamic financing to customers		3,637,212	3,262,285	3,193,029
Investment in Sukuk	9	343,782	309,339	305,965
Other investment securities	9	80,349	73,500	67,428
Investments in associates		30,894	28,916	30,256
Investment properties		24,663	24,036	27,929
Other assets		22,359	24,088	24,221
Property and equipment		81,010	57,036	55,157
Total assets		5,032,954	4,344,778	4,253,123
Liabilities and equity				
Liabilities				
Due to banks		215,600	97,216	142,005
Depositors' accounts		4,102,177	3,720,935	3,594,017
Other liabilities		70,135	40,667	43,333
Total liabilities		4,387,912	3,858,818	3,779,355
Equity				
Share capital	16	288,407	238,847	238,847
Share premium	16	156,942	62,896	62,896
Proposed bonus shares	16	-	11,942	-
Treasury shares	11	(54)	(643)	(643)
Statutory reserve		25,251	25,251	19,349
Other reserves	12	22,519	19,165	14,558
Retained earnings		74,251	31,707	61,058
Proposed cash dividends	16	-	19,092	-
Equity attributable to equity holders of the Bank		567,316	408,257	396,065
Perpetual Tier 1 Sukuk		75,388	75,388	75,388
Non-controlling interests		2,338	2,315	2,315
Total equity		645,042	485,960	473,768
Total liabilities and equity		5,032,954	4,344,778	4,253,123

 Mahmoud Yusef Al-Fulaij
Chairman

 Adel Abdul Wahab Al Majed
Vice Chairman & Chief Executive Officer

The notes from 1 to 16 form an integral part of this interim condensed consolidated financial information.

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the period from 1 January 2019 to 30 September 2019

	Share capital	Share premium	Proposed bonus shares	Treasury shares	Statutory reserve	Other reserves (note 12)	Retained earnings	Proposed cash dividends	Total	Perpetual tier 1 Sukuk	Non-controlling interests	Total equity
	KD'000s	KD'000s	KD'000s	KD'000s	KD'000s	KD'000s	KD'000s	KD'000s	KD'000s	KD'000s	KD'000s	KD'000s
Balance at 1 January 2019	238,847	62,896	11,942	(643)	25,251	19,165	31,707	19,092	408,257	75,388	2,315	485,960
Profit for the period	-	-	-	-	-	-	45,229	-	45,229	-	23	45,252
Other comprehensive income for the period	-	-	-	-	-	3,768	-	-	3,768	-	-	3,768
Total comprehensive income for the period	-	-	-	-	-	3,768	45,229	-	48,997	-	23	49,020
Dividends paid (note 16)	-	-	-	-	-	-	(14)	(19,092)	(19,106)	-	-	(19,106)
Profit paid on Perpetual Tier 1 Sukuk	-	-	-	-	-	-	(2,563)	-	(2,563)	-	-	(2,563)
Issue of bonus shares (note 16)	11,942	-	(11,942)	-	-	-	-	-	-	-	-	-
Increase in share capital (note 16)	37,618	94,046	-	-	-	-	-	-	131,664	-	-	131,664
Cost directly related to increase in share capital	-	-	-	-	-	-	(108)	-	(108)	-	-	(108)
Sale of treasury shares	-	-	-	589	-	(414)	-	-	175	-	-	175
Balance at 30 September 2019	288,407	156,942	-	(54)	25,251	22,519	74,251	-	567,316	75,388	2,338	645,042
Balance at 1 January 2018 (as originally stated)	227,473	62,896	11,374	(1,122)	19,349	14,764	24,122	15,900	374,756	75,388	2,213	452,357
Impact of adopting IFRS 9 at 1 January 2018	-	-	-	-	-	798	(831)	-	(33)	-	-	(33)
Balance as at 1 January 2018 (restated)	227,473	62,896	11,374	(1,122)	19,349	15,562	23,291	15,900	374,723	75,388	2,213	452,324
Profit for the period	-	-	-	-	-	-	40,311	-	40,311	-	102	40,413
Other comprehensive loss for the period	-	-	-	-	-	(764)	-	-	(764)	-	-	(764)
Total comprehensive (loss)/income for the period	-	-	-	-	-	(764)	40,311	-	39,547	-	102	39,649
Dividends paid (note 16)	-	-	-	-	-	-	-	(15,900)	(15,900)	-	-	(15,900)
Profit paid on Perpetual Tier 1 Sukuk	-	-	-	-	-	-	(2,544)	-	(2,544)	-	-	(2,544)
Issue of bonus shares (note 16)	11,374	-	(11,374)	-	-	-	-	-	-	-	-	-
Sale of treasury shares	-	-	-	479	-	(240)	-	-	239	-	-	239
Balance at 30 September 2018	238,847	62,896	-	(643)	19,349	14,558	61,058	-	396,065	75,388	2,315	473,768

The notes from 1 to 16 form an integral part of this interim condensed consolidated financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF
 CASH FLOWS (UNAUDITED)

For the period from 1 January 2019 to 30 September 2019

	Notes	Nine months ended 30	
		September	
		2019	2018
		KD'000s	KD'000s
OPERATING ACTIVITIES			
Net profit for the period		45,252	40,413
Adjustments for:			
Provision for impairment	4	17,922	21,153
Depreciation		5,847	3,176
Foreign currency translation adjustments		1,612	(1,962)
Unrealised gain from financial assets at fair value through profit or loss		(1,045)	(244)
Gain on deemed acquisition in an associate	3	(982)	-
Loss on derecognition of investment in associates	3	-	404
Share of results of associates	3	(1,957)	(1,383)
Unrealized loss on fair valuation of investment properties		-	1,539
Dividend income	3	(1,385)	(743)
Operating profit before changes in operating assets and liabilities		65,264	62,353
Changes in operating assets and liabilities:			
Deposits with Central Bank of Kuwait		85,874	46,759
Deposits with other banks		(27,595)	120,447
Islamic financing to customers		(392,089)	(328,664)
Other assets		1,729	(7,642)
Due to banks		118,384	74,531
Depositors' accounts		381,242	195,265
Other liabilities		20,956	(8,724)
Net cash generated from operating activities		253,765	154,325
INVESTING ACTIVITIES			
Proceeds from sale of financial assets at fair value through profit or loss		35,211	15,768
Purchase of financial assets at fair value through profit or loss		(40,981)	(13,077)
Purchase of financial assets at fair value through other comprehensive income		(147,109)	(199,420)
Proceeds from sale of financial asset at fair value through other comprehensive income		115,149	73,216
Purchase of associate		-	(36)
Purchase of investment properties		(807)	(1,438)
Proceeds from sale of investment properties		-	25,418
Purchase of property and equipment		(21,303)	(3,977)
Dividend income received		1,385	743
Dividend received from associate		83	202
Net cash used in investing activities		(58,372)	(102,601)
FINANCING ACTIVITIES			
Proceeds from increase in share capital	16	131,664	-
Cost directly related to increase in share capital		(108)	-
Profit paid on perpetual Tier 1 Sukuk		(2,563)	(2,544)
Dividends paid		(19,106)	(15,900)
Proceeds from exercise of share options		175	240
Net cash generating from /(used in) financing activities		110,062	(18,204)
Net increase in cash and cash equivalents		305,455	33,520
Cash and cash equivalents at beginning of the period		164,767	131,378
Cash and cash equivalents at end of the period	8	470,222	164,898

The notes from 1 to 16 form an integral part of this interim condensed consolidated financial information.

For the period from 1 January 2019 to 30 September 2019

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 and in accordance with the rules and regulations of the Central Bank of Kuwait ("CBK") (Law No. 30 of 2003).

The Bank's shares were listed on the Kuwait Stock Exchange on 15 May 2006.

The Bank was licensed by the CBK 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 31 July 2012; the Bank became a subsidiary of National Bank of Kuwait K.S.C.P. ("the Parent Company").

This interim condensed consolidated financial information as at and for the nine months period ended 30 September 2019 incorporates the financial information of the Bank and its principal operating subsidiaries, Boubyan Takaful Insurance Company K.S.C. (Closed) and Boubyan Capital Investment Company K.S.C. (Closed), (together referred to as "the Group") and the Group's interests in associates.

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

This interim condensed consolidated financial information was authorised for issue by the Board of Directors on 6 October 2019.

2. SIGNIFICANT ACCOUNTING POLICIES**2.1 Basis of preparation**

The interim condensed consolidated financial information of the Group has been prepared in accordance with International Accounting Standard (IAS) 34, 'Interim Financial Reporting' except as noted below. The accounting policies used in the preparation of these interim condensed consolidated financial information are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2018 except for the changes described below arising from the adoption of IFRS 16 'Leases' effective from 1 January 2019.

The annual consolidated financial statements for the year ended 31 December 2018 were prepared in accordance with regulations for financial services institutions as issued by the Central Bank of Kuwait ("CBK") in the State of Kuwait. These regulations require expected credit loss ("ECL") to be measured at higher of the ECL on credit facilities computed under IFRS 9 according to the CBK guidelines or the provisions as required by CBK instructions; the consequent impact on related disclosures; and the adoption of all other requirements of International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standard Board ("IASB").

The ECL for Islamic financing as at 30 September 2019 is **KD 50,802** thousand (31 December 2018: KD 49,914 thousand) which is lower than the provision for impairment of Islamic financing to customers required by CBK.

The interim condensed consolidated financial information does not contain all information and disclosures required for the annual consolidated financial statements prepared in accordance with IFRS as adopted for use by the State of Kuwait, and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2018. Further, results for interim periods are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2019.

For the period from 1 January 2019 to 30 September 2019

2. SIGNIFICANT ACCOUNTING POLICIES (continued)**2.2 Changes in accounting policies and disclosures****Adoption of IFRS 16 ‘Leases’**

The Group has adopted IFRS 16 issued in January 2016 starting from 1 January 2019. IFRS 16 replaces IAS 17, IFRIC 4, SIC-15 and SIC-27. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. The Group, as a lessee, has adopted the following accounting policy in respect of its leases:

At inception of a contract, the Group assesses whether the contract is a lease. A contract is a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for a consideration. If the contract is identified as a lease, the Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred. The right-of-use asset is subsequently depreciated using the straight-line method over the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Group’s incremental borrowing rate. The lease liability is subsequently measured at amortised cost using the effective yield method.

3. NET INVESTMENT INCOME

	Three months ended		Nine months ended	
	30 September		30 September	
	2019	2018	2019	2018
	KD’000s	KD’000s	KD’000s	KD’000s
Dividend income	688	203	1,385	743
Net gain/(loss) from financial assets at fair value through profit or loss	140	(377)	1,055	733
Net gain from sale of debt investment at fair value through other comprehensive income.	105	-	105	-
Gain on deemed acquisition in an associate	-	-	982	-
Loss on derecognition of investment in an associate	-	(404)	-	(404)
Income /(loss) from investment properties	98	(1,322)	297	(975)
Share of results of associates	377	775	1,957	1,383
	1,408	(1,125)	5,781	1,480

4. PROVISION FOR IMPAIRMENT

	Three months ended		Nine months ended	
	30 September		30 September	
	2019	2018	2019	2018
	KD’000s	KD’000s	KD’000s	KD’000s
Provision charge for Islamic financing to customers	2,788	4,730	16,594	12,653
ECL – Other financial assets	175	-	765	58
Impairment loss on investments in associates	-	1,064	-	8,442
Impairment loss on other assets	-	-	563	-
	2,963	5,794	17,922	21,153

For the period from 1 January 2019 to 30 September 2019

5. TAXATION

	Three months ended 30 September		Nine months ended 30 September	
	2019	2018	2019	2018
	KD'000s	KD'000s	KD'000s	KD'000s
Contribution to Kuwait Foundation for the Advancement of Sciences ("KFAS")	135	135	423	372
National Labour Support Tax ("NLST")	382	358	1,160	1,044
Zakat (Based on Zakat law no: 46/2006)	153	147	464	417
	670	640	2,047	1,833

6. IMPACT OF ADOPTION OF IFRS 16

The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated. Lease liabilities and right-of-use assets were both recorded at the present value of future lease payments, thus no impact was recorded on the opening retained earnings.

The Group presents right-of-use assets in property and equipment and lease liabilities in other liabilities in the interim condensed consolidated statement of financial position. The carrying value of the right of use assets and lease liabilities as at 30 September 2019 amounted to **KD 10,868** thousand and **KD 8,518** thousand respectively.

Depreciation charge for the right-of-use assets for the period amounted to **KD 2,478** thousand and is included in depreciation in the interim condensed consolidated statement of profit and loss.

7. BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit for the period attributable to the equity holders of the Bank by the weighted average number of shares outstanding during the period.

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

	Three months ended 30 September		Nine months ended 30 September	
	2019	2018	2019	2018
Net profit for the period attributable to the equity holders of the Bank (KD'000s)	16,364	14,570	45,229	40,311
Less: profit payment on Perpetual Tier 1 Sukuk (KD'000s)	-	-	(2,563)	(2,544)
	16,364	14,570	42,666	37,767
Weighted average number of shares outstanding during the period net of treasury shares (thousands of shares)	2,883,748	2,660,075	2,798,147	2,659,839
Basic and diluted earnings per share attributable to the equity holders of the Bank (fils)	5.67	5.48	15.25	14.20

Earnings per share for the prior period were 6.11 fils and 15.83 fils, before retroactive adjustment to the number of shares following the bonus issue and rights shares issued in 2019 (note 16).

For the period from 1 January 2019 to 30 September 2019

8. CASH AND CASH EQUIVALENTS

	(Audited)		
	30 September 2019	31 December 2018	30 September 2018
	KD'000s	KD'000s	KD'000s
Cash and balances with banks	211,576	83,805	76,559
Placements with banks maturing within seven days	258,646	80,962	88,339
	470,222	164,767	164,898

9. INVESTMENT SECURITIES

	(Audited)		
	30 September 2019	31 December 2018	30 September 2018
	KD'000s	KD'000s	KD'000s
Investment in Sukuk - FVOCI	343,782	309,339	305,965
Financial assets at fair value through profit or loss	49,382	42,760	36,453
Financial assets at fair value through other comprehensive income	30,967	30,740	30,975
	424,131	382,839	373,393

	(Audited)		
	30 September 2019	31 December 2018	30 September 2018
	KD'000s	KD'000s	KD'000s
Financial assets at fair value through profit or loss			
Investment in unquoted equity funds	49,382	42,760	36,453
	49,382	42,760	36,453

	(Audited)		
	30 September 2019	31 December 2018	30 September 2018
	KD'000s	KD'000s	KD'000s
Financial assets at fair value through other comprehensive income			
Investment in unquoted equity securities	30,775	30,574	30,825
Investment in quoted equity securities	192	166	150
	30,967	30,740	30,975

BOUBYAN BANK K.S.C.P. AND SUBSIDIARIES
**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
INFORMATION (UNAUDITED)**


For the period from 1 January 2019 to 30 September 2019

10. 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 member, 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 members or executive officers			Number of related parties			(Audited)		
	30 September 2019	31 December 2018	30 September 2018	30 September 2019	31 December 2018	30 September 2018	30 September 2019 KD'000s	31 December 2018 KD'000s	30 September 2018 KD'000s
Islamic financing to customers	5	7	7	3	2	2	17,371	5,157	4,269
Depositors' accounts	8	5	15	13	9	10	3,824	3,028	5,377
Letters of guarantee and letters of credit	-	-	-	-	-	-	-	-	6
Murabaha and other Islamic financing income							355	231	145
Finance cost and distribution to depositors							(84)	(87)	(72)
Parent Company									
Due from banks							71,331	43,139	58,323
Due to banks							6,255	59,140	27,596
Murabaha and other Islamic financing income							1,130	1,617	1,272
Finance cost and distribution to depositors							(582)	(664)	(293)

10. RELATED PARTY TRANSACTIONS (CONTINUED)**Compensation of key management personnel**

Details of compensation to key management comprise the following:

	Three months ended		Nine months ended	
	30 September		30 September	
	2019	2018	2019	2018
	KD'000s	KD'000s	KD'000s	KD'000s
Short-term benefits	545	534	1,633	1,553
Post-employment benefits	121	85	334	291
Share based compensation	151	143	459	440
	817	762	2,426	2,284

11. TREASURY SHARES

The Bank held the following treasury shares:

	30 September 2019	(Audited)	
		31 December 2018	30 September 2018
Number of treasury shares	331,112	2,027,659	2,027,659
Treasury shares as a percentage of total issued shares - %	0.0115%	0.0849%	0.0849%
Cost of treasury shares – KD thousand	54	643	643
Market value of treasury shares – KD thousand	184	1,135	1,142
Weighted average of market value per share – KD	0.572	0.508	0.497

12. OTHER RESERVES

	Voluntary reserve	Share based payment reserve	Fair value reserve	Foreign currency translation reserve	Total
	KD'000s	KD'000s	KD'000s	KD'000s	KD'000s
Balance at 1 January 2019	24,158	1,381	3,543	(9,917)	19,165
Other comprehensive income for the period	-	-	3,340	428	3,768
Total comprehensive income for the period	-	-	3,340	428	3,768
Sale of treasury shares	-	(414)	-	-	(414)
Balance at 30 September 2019	24,158	967	6,883	(9,489)	22,519
Balance at 1 January 2018 (as previously presented)	18,510	1,671	3,859	(9,276)	14,764
Impact of adopting IFRS 9 at 1 January 2018	-	-	798	-	798
Balance as at 1 January 2018 (<i>restated</i>)	18,510	1,671	4,657	(9,276)	15,562
Other comprehensive (loss)/ income for the period	-	-	(1,216)	452	(764)
Total comprehensive (loss)/ income for the period	-	-	(1,216)	452	(764)
Sale of treasury shares	-	(240)	-	-	(240)
Balance at 30 September 2018	18,510	1,431	3,441	(8,824)	14,558

13. 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:

	(Audited)		
	30 September 2019	31 December 2018	30 September 2018
	KD'000s	KD'000s	KD'000s
Guarantees	270,001	264,940	272,226
Acceptances and letters of credit	83,858	91,632	92,749
Other commitments	1,278	9,278	1,305
	355,137	365,850	366,280

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. The operating segments are divided as either business segments or geographical segments.

Business Segments

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

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

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

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

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

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

	Consumer banking	Corporate banking	Investment banking	Treasury	Group centre	Total
	KD'000s	KD'000s	KD'000s	KD'000s	KD'000s	KD'000s
Nine months ended 30 September 2019						
Net financing income/(loss)	49,364	25,708	(2,509)	5,520	9,906	87,989
Operating income	54,938	32,541	8,257	8,379	5,275	109,390
Net profit/(loss) for the period	26,138	17,876	5,155	7,909	(11,826)	45,252
Total assets	1,594,430	2,535,398	172,314	669,387	61,425	5,032,954
Total liabilities	2,312,714	350,839	16,870	1,657,784	49,705	4,387,912
Nine months ended 30 September 2018						
Net financing income/(loss)	48,855	28,408	(2,122)	8,561	6,959	90,661
Operating income	54,155	34,870	2,372	10,842	2,694	104,933
Net profit/(loss) for the period	30,080	24,008	(8,648)	10,411	(15,438)	40,413
Total assets	1,437,647	2,207,798	151,472	435,057	21,149	4,253,123
Total liabilities	1,884,478	297,280	20,101	1,555,729	21,767	3,779,355

15. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in orderly transactions between market participants at the measurement date. Fair values are obtained from quoted market prices, discounted cash flow models and other models as appropriate.

Fair value hierarchy

The table below analyses financial instruments measured 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: input other than quoted prices included within Level 1 that are observable, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs that are not based on observable market data (unobservable inputs).

	Level 1	Level 2	Level 3	Total
	KD'000s	KD'000s	KD'000s	KD'000s
30 September 2019				
Financial assets at fair value through profit or loss	-	49,382	-	49,382
Investment in Sukuk - FVOCI	343,782	-	-	343,782
Financial assets at fair value through other comprehensive income	192	-	30,775	30,967
	<u>343,974</u>	<u>49,382</u>	<u>30,775</u>	<u>424,131</u>
31 December 2018 (Audited)				
Financial assets at fair value through profit or loss	-	42,760	-	42,760
Investment in Sukuk - FVOCI	309,339	-	-	309,339
Financial assets at fair value through other comprehensive income	166	-	30,574	30,740
	<u>309,505</u>	<u>42,760</u>	<u>30,574</u>	<u>382,839</u>
30 September 2018				
Financial assets at fair value through profit or loss	-	36,453	-	36,453
Investment in Sukuk - FVOCI	305,965	-	-	305,965
Financial assets at fair value through other comprehensive income	150	-	30,825	30,975
	<u>306,115</u>	<u>36,453</u>	<u>30,825</u>	<u>373,393</u>

Fair values of all financial instruments are not materially different from their carrying values.

The movement in Level 3 of financial instrument during the period are as follows:

	At 1	Change in	Additions/	Sale/	Exchange rate	At
	January	fair value	transfers	redemption	movements	30 September
	KD'000s	KD'000s	KD'000s	KD'000s	KD'000s	KD'000s
30 September 2019:						
Assets measured at fair value						
Financial assets at fair value through other comprehensive income	30,574	34	-	(78)	245	30,775
	<u>30,574</u>	<u>34</u>	<u>-</u>	<u>(78)</u>	<u>245</u>	<u>30,775</u>
30 September 2018:						
Assets measured at fair value						
Financial assets at fair value through profit or loss	3,477	-	(3,477)	-	-	-
Available for sale investments	9,788	-	(9,788)	-	-	-
Financial assets at fair value through other comprehensive income	-	(15)	30,895	(88)	33	30,825
	<u>13,265</u>	<u>(15)</u>	<u>17,630</u>	<u>(88)</u>	<u>33</u>	<u>30,825</u>

For the period from 1 January 2019 to 30 September 2019

15. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The impact on the interim condensed consolidated statement of financial position or the interim condensed consolidated statement of profit and loss and other comprehensive income would be immaterial if the relevant risk variables used to fair value the securities classified under level 2 and level 3 were altered by 5 percent.

16. ANNUAL GENERAL ASSEMBLY MEETING

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

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