

NATIONAL BANK OF KUWAIT GROUP

**INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION**

31 MARCH 2021 (UNAUDITED)



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REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION TO THE BOARD OF DIRECTORS OF NATIONAL BANK OF KUWAIT S.A.K.P.

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of National Bank of Kuwait S.A.K.P. (the “Bank”) and its subsidiaries (collectively the “Group”) as at 31 March 2021, and the related interim condensed consolidated statement of income, interim condensed consolidated statement of comprehensive income, interim condensed consolidated statement of changes in equity and interim condensed consolidated statement of cash flows for the three 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 account 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 regulation, as amended, or of the Bank’s Articles of Association and Memorandum of Incorporation, as amended, during the three months period ended 31 March 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 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 organization of banking business, and its related regulations, during the three months period ended 31 March 2021 that might have had a material effect on the business of the Bank or on its financial position.

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18 April 2021
Kuwait

National Bank of Kuwait Group

INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME

31 March 2021 (Unaudited)

	Notes	Three months ended 31 March	
		2021 KD 000's	2020 KD 000's
Interest income		159,887	228,137
Interest expense		37,749	92,555
Net interest income		122,138	135,582
Murabaha and other Islamic financing income		56,006	58,423
Finance cost and Distribution to depositors		15,748	24,809
Net income from Islamic financing		40,258	33,614
Net interest income and net income from Islamic financing		162,396	169,196
Net fees and commissions		39,410	38,297
Net investment income (loss)		8,307	(3,333)
Net gains from dealing in foreign currencies		8,116	19,533
Other operating income		3,291	1,096
Non-interest income		59,124	55,593
Net operating income		221,520	224,789
Staff expenses		46,041	45,537
Other administrative expenses		27,205	28,489
Depreciation of premises and equipment		8,425	8,001
Amortisation of intangible assets		412	412
Operating expenses		82,083	82,439
Operating profit before provision for credit losses and impairment losses		139,437	142,350
Provision charge for credit losses and impairment losses	3	42,626	51,498
Operating profit before taxation		96,811	90,852
Taxation	4	7,833	9,036
Profit for the period		88,978	81,816
Attributable to:			
Shareholders of the Bank		84,308	77,673
Non-controlling interests		4,670	4,143
		88,978	81,816
Basic earnings per share attributable to shareholders of the Bank	5	12 fils	11 fils

The attached notes 1 to 14 form part of this interim condensed consolidated financial information.

National Bank of Kuwait Group

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

31 March 2021 (Unaudited)

	Three months ended 31 March	
	2021 KD 000's	2020 KD 000's
Profit for the period	88,978	81,816
Other comprehensive income / (loss)		
Investment in debt securities measured at FVOCI :		
Net change in fair value	34,810	(247,667)
Net transfer to interim condensed consolidated statement of income	(6,342)	8,928
	28,468	(238,739)
Share of other comprehensive loss of associates	(3)	(287)
Exchange differences on translation of foreign operations	(6,574)	13,848
Other comprehensive income / (loss) for the period reclassifiable to interim condensed consolidated statement of income in subsequent periods	21,891	(225,178)
Net gain / (loss) on investments in equity instruments designated at FVOCI (not reclassifiable to interim condensed consolidated statement of income in subsequent periods)	22	(1,005)
Other comprehensive income / (loss) for the period	21,913	(226,183)
Total comprehensive income / (loss) for the period	110,891	(144,367)
Attributable to:		
Shareholders of the Bank	104,670	(134,053)
Non-controlling interests	6,221	(10,314)
	110,891	(144,367)

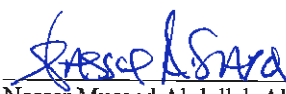
The attached notes 1 to 14 form part of this interim condensed consolidated financial information.

National Bank of Kuwait Group

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 March 2021 (Unaudited)

		31 March 2021	Audited 31 December 2020	31 March 2020
	Notes	KD 000's	KD 000's	KD 000's
Assets				
Cash and short term funds		4,704,797	3,903,371	3,772,541
Central Bank of Kuwait bonds		830,817	830,233	826,304
Kuwait Government treasury bonds		455,780	462,922	612,155
Deposits with banks		1,170,719	1,027,373	1,864,443
Loans, advances and Islamic financing to customers	6	17,850,669	17,504,342	17,717,767
Investment securities		4,730,165	4,728,778	4,419,455
Investment in associates		4,945	5,195	6,620
Land, premises and equipment		429,016	426,963	450,223
Goodwill and other intangible assets		581,288	581,881	585,080
Other assets		242,522	246,333	286,506
Total assets		31,000,718	29,717,391	30,541,094
Liabilities				
Due to banks and other financial institutions		6,807,076	5,981,573	7,342,435
Customer deposits		17,043,457	17,104,232	17,220,721
Certificates of deposit issued		1,378,425	918,862	606,918
Other borrowed funds		792,217	808,665	593,988
Other liabilities		713,374	763,004	859,913
Total liabilities		26,734,549	25,576,336	26,623,975
Equity				
Share capital	7	719,269	685,019	685,019
Proposed bonus shares	7	-	34,250	-
Statutory reserve		342,511	342,511	326,199
Share premium account		803,028	803,028	803,028
Treasury shares	7	-	-	(39,258)
Treasury shares reserve		34,961	34,961	25,115
Other reserves	7	1,375,502	1,410,240	1,273,215
Equity attributable to shareholders of the Bank		3,275,271	3,310,009	3,073,318
Perpetual Tier 1 Capital Securities	8	591,770	438,438	438,438
Non-controlling interests	7	399,128	392,608	405,363
Total equity		4,266,169	4,141,055	3,917,119
Total liabilities and equity		31,000,718	29,717,391	30,541,094


 Nasser Musaed Abdullah Al-Sayer
 Chairman

National Bank of Kuwait Group

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

31 March 2021 (Unaudited)

	Notes	Three months ended 31 March	
		2021 KD 000's	2020 KD 000's
Operating activities			
Profit for the period		88,978	81,816
Adjustments for:			
Net investment (income) loss		(8,307)	3,333
Depreciation of premises and equipment		8,425	8,001
Amortisation of intangible assets		412	412
Provision charge for credit losses and impairment losses	3	42,626	51,498
Taxation	4	7,833	9,036
Cash flow from operating activities before changes in operating assets and liabilities		139,967	154,096
Changes in operating assets and liabilities:			
Central Bank of Kuwait bonds		(584)	(3,075)
Kuwait Government treasury bonds		7,142	50,020
Deposits with banks		(154,669)	35,259
Loans, advances and Islamic financing to customers		(388,351)	(666,068)
Other assets		3,811	10,276
Due to banks and other financial institutions		825,503	(388,916)
Customer deposits		(60,775)	925,260
Certificates of deposit issued		459,563	68,307
Other liabilities		2,197	155,689
Tax paid		(3,873)	(8,028)
Net cash from operating activities		829,931	332,820
Investing activities			
Purchase of investment securities		(856,680)	(517,846)
Proceeds from sale/redemption of investment securities		835,321	194,815
Dividend income		18	24
Proceeds from sale of investment in associate		-	690
Purchase of investment in associate		-	(538)
Acquisition of subsidiary net of cash acquired		-	(325)
Transaction costs related to acquisition of a subsidiary		-	(1,815)
Proceeds from sale of land, premises and equipment		197	718
Purchase of land, premises and equipment		(9,272)	(25,402)
Net cash used in investing activities		(30,416)	(349,679)
Financing activities			
Net proceeds from issuance of Perpetual Tier 1 Capital Securities		210,516	-
Partial redemption of Perpetual Tier 1 Capital Securities		(57,963)	-
Interest paid on Perpetual Tier 1 Capital Securities		(1,461)	-
Proceeds from issuance of Sukuk		-	228,600
Other borrowed funds		(12,177)	-
Dividends paid	7	(137,004)	(226,373)
Net cash from financing activities		1,911	2,227
Increase (decrease) in cash and short term funds		801,426	(14,632)
Cash and short term funds at 1 January		3,903,371	3,787,173
Cash and short term funds at 31 March		4,704,797	3,772,541

The attached notes 1 to 14 form part of this interim condensed consolidated financial information.

National Bank of Kuwait Group

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

31 March 2021 (Unaudited)

	Equity attributable to shareholders of the Bank										KD 000's
	Share capital	Proposed bonus shares	Statutory reserve	Share premium account	Treasury shares	Treasury shares reserve	Other reserves (Note 7)	Total	Perpetual Tier 1 Capital Securities	Non-controlling interests	
At 1 January 2021	685,019	34,250	342,511	803,028	-	34,961	1,410,240	3,310,009	438,438	392,608	4,141,055
Profit for the period	-	-	-	-	-	-	84,308	84,308	-	4,670	88,978
Other comprehensive income	-	-	-	-	-	-	20,362	20,362	-	1,551	21,913
Total comprehensive income											
Issue of bonus shares (Note 7c)	34,250	(34,250)	-	-	-	-	-	-	-	-	-
Dividends paid (Note 7c)	-	-	-	-	-	-	-	-	-	-	-
Issuance of Perpetual Tier 1 Capital Securities (Note 8)	-	-	-	-	-	-	(137,004)	(137,004)	-	-	(137,004)
Partial redemption of Perpetual Tier 1 Capital Securities (Note 8)	-	-	-	-	-	-	-	-	211,295	-	211,295
Interest paid on perpetual Tier 1 Capital Securities	-	-	-	-	-	-	-	-	(57,963)	-	(57,963)
Transaction cost on issue of Perpetual Tier 1 Capital Securities	-	-	-	-	-	-	(1,461)	(1,461)	-	-	(1,461)
Other movements	-	-	-	-	-	-	(779)	(779)	-	-	(779)
	-	-	-	-	-	-	(164)	(164)	-	299	135
At 31 March 2021	719,269	34,250	342,511	803,028	-	34,961	1,375,502	3,275,271	591,770	399,128	4,266,169
At 1 January 2020	652,399	32,620	326,199	803,028	(39,258)	25,115	1,633,641	3,433,744	438,438	386,978	4,259,160
Profit for the period	-	-	-	-	-	-	77,673	77,673	-	4,143	81,816
Other comprehensive loss	-	-	-	-	-	-	(211,726)	(211,726)	-	(14,457)	(226,183)
Total comprehensive loss											
Issue of bonus shares (Note 7c)	32,620	(32,620)	-	-	-	-	(134,053)	(134,053)	-	(10,314)	(144,367)
Dividends paid (Note 7c)	-	-	-	-	-	-	-	-	-	-	-
Acquisition of subsidiaries	-	-	-	-	-	-	(226,373)	(226,373)	-	-	(226,373)
Other movements	-	-	-	-	-	-	-	-	-	28,802	28,802
	-	-	-	-	-	-	-	-	-	(103)	(103)
At 31 March 2020	685,019	32,620	326,199	803,028	(39,258)	25,115	1,273,215	3,073,318	438,438	405,363	3,917,119

The attached notes 1 to 14 form part of this interim condensed consolidated financial information.

National Bank of Kuwait Group

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

31 March 2021 (Unaudited)

1 Incorporation and registration

The interim condensed consolidated financial information of National Bank of Kuwait S.A.K.P. (the "Bank") and its subsidiaries (collectively the "Group") for the three months period ended 31 March 2021 was authorised for issue in accordance with a resolution of the directors on 12 April 2021. The Bank is a public shareholding company incorporated in the State of Kuwait in 1952 and is registered as a bank (commercial registration number – 8490) with the Central Bank of Kuwait. The Bank's registered office is at Al Shuhada Street, P.O. Box 95, Safat 13001, Kuwait.

2 Accounting policies

Basis of preparation

- a) The interim condensed consolidated financial information of the Group has been prepared in accordance with International Accounting Standard (IAS) 34, 'Interim Financial Reporting' except for point (b) below.
- b) The consolidated financial statements have been prepared in accordance with the regulations for financial services institutions as issued by the Central Bank of Kuwait (CBK) in the State of Kuwait. These regulations, including CBK circulars on regulatory measures in response to COVID-19 and related CBK communications, require banks and other financial institutions regulated by CBK to adopt the International Financial Reporting Standards with the following amendments:
 - Expected credit loss ("ECL") on credit facilities to be measured at the higher of ECL computed under IFRS 9 in accordance to the CBK guidelines or the provisions as required by CBK instructions along with its consequent impact on related disclosures; and
 - Modification losses on financial assets (consumer and other instalment loans and credit card receivables) arising from payment holidays to customers in response to COVID-19 to be recognized in retained earnings, instead of consolidated statement of income as required by IFRS 9.

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

The interim condensed consolidated financial information does not contain all information and disclosures required for the annual consolidated financial statements prepared in accordance with International Financial Reporting Standards, and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2020. Further, results for interim periods are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2021.

The accounting policies used in the preparation of this 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 2020 except for the adoption of new standards effective as of 1 January 2021 as noted below.

New standards, interpretations and amendments adopted by the Group

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

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR).

The amendments include the following practical expedients:

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest
- Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued

These amendments had no impact on the interim condensed consolidated financial information of the Group. The Group intends to use the practical expedients in future periods if they become applicable.

National Bank of Kuwait Group

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

31 March 2021 (Unaudited)

3 Provision charge for credit losses and impairment losses

	Three months ended 31 March	
	2021 KD 000's	2020 KD 000's
Provision charge for credit facilities – specific	16,769	10,611
Provision charge for credit facilities – general	26,005	13,200
Expected credit losses (release) charge	(148)	27,687
	<u>42,626</u>	<u>51,498</u>

4 Taxation

	Three months ended 31 March	
	2021 KD 000's	2020 KD 000's
National Labour Support Tax	1,924	2,010
Zakat	937	855
Contribution to Kuwait Foundation for the Advancement of Sciences	701	539
Overseas tax	4,271	5,632
	<u>7,833</u>	<u>9,036</u>

5 Earnings per share

Basic earnings per share is calculated by dividing the profit for the period attributable to shareholders of the Bank (adjusted for interest and profit paid on Perpetual Tier 1 Capital Securities) by the weighted average number of shares outstanding during the period net of treasury shares. There are no dilutive potential shares that are convertible into shares.

	Three months ended 31 March	
	2021 KD 000's	2020 KD 000's
Profit attributable to shareholders of the Bank	84,308	77,673
Less: Interest paid on Perpetual Tier 1 Capital Securities	(1,461)	-
	<u>82,847</u>	<u>77,673</u>
Weighted average number of shares outstanding during the period net of treasury shares (thousands)	<u>7,192,694</u>	<u>7,130,734</u>
Basic earnings per share	<u>12 fils</u>	<u>11 fils</u>

Earnings per share calculations for the period ended 31 March 2020 have been adjusted to take account of the bonus shares issued in 2021.

National Bank of Kuwait Group

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

31 March 2021 (Unaudited)

6 Loans, advances and Islamic financing to customers

	31 March 2021 KD 000's	Audited 31 December 2020 KD 000's	31 March 2020 KD 000's
Loans, advances and Islamic financing to customers	18,553,044	18,191,566	18,266,612
Provision for credit losses	(702,375)	(687,224)	(548,845)
	<u>17,850,669</u>	<u>17,504,342</u>	<u>17,717,767</u>

The available provision on non-cash facilities of KD 37,518 thousand (31 December 2020: KD 36,768 thousand, 31 March 2020: KD 32,209 thousand) is included under other liabilities.

The Expected Credit Losses ("ECL") on credit facilities determined under IFRS 9 in accordance to the CBK guidelines amounted to KD 588,073 thousand as at 31 March 2021 (31 December 2020: 604,962 thousand, 31 March 2020: KD 477,396 thousand). CBK guidelines prescribe certain parameters to determine the ECL on credit facilities such as floors for estimating Probability of Default (PD), eligible collateral with haircuts for determining Loss Given Default (LGD), deemed minimum maturity for Stage 2 exposures, 100% credit conversion factors for utilised cash and non-cash facilities, Stage 3 ECLs at 100% of the defaulted exposure net of eligible collateral after applying applicable haircuts etc.

An analysis of the carrying amounts of credit facilities, and the corresponding ECL based on the staging criteria under IFRS 9 in accordance to the CBK guidelines is as follows:

<i>31 March 2021</i>	<i>Stage 1 KD 000's</i>	<i>Stage 2 KD 000's</i>	<i>Stage 3 KD 000's</i>	<i>Total KD 000's</i>
Loans, advances and Islamic financing to customers	16,282,191	1,961,295	309,558	18,553,044
Contingent liabilities (Note 10)	3,852,271	714,731	13,364	4,580,366
ECL allowance for credit facilities	156,013	195,332	236,728	588,073
<i>31 December 2020</i>	<i>Stage 1 KD 000's</i>	<i>Stage 2 KD 000's</i>	<i>Stage 3 KD 000's</i>	<i>Total KD 000's</i>
Loans, advances and Islamic financing to customers	16,075,390	1,755,459	360,717	18,191,566
Contingent liabilities (Note 10)	3,720,060	759,428	13,547	4,493,035
ECL allowance for credit facilities	129,668	192,709	282,585	604,962
<i>31 March 2020</i>	<i>Stage 1 KD 000's</i>	<i>Stage 2 KD 000's</i>	<i>Stage 3 KD 000's</i>	<i>Total KD 000's</i>
Loans, advances and Islamic financing to customers	16,932,845	1,084,514	249,253	18,266,612
Contingent liabilities (Note 10)	3,987,270	628,980	9,265	4,625,515
ECL allowance for credit facilities	145,056	117,019	215,321	477,396

National Bank of Kuwait Group

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

31 March 2021 (Unaudited)

7 Shareholders' equity

a) The authorised share capital of the Bank comprises 7,500,000,000 shares (31 December 2020: 7,500,000,000 shares and 31 March 2020: 7,500,000,000 shares) of 100 fils each. The issued and fully paid up share capital of the Bank comprises 7,192,694,440 shares (31 December 2020: 6,850,185,181 shares and 31 March 2020: 6,850,185,181 shares) of 100 fils each.

b) Treasury shares

	31 March 2021	Audited 31 December 2020	31 March 2020
Number of treasury shares	-	-	59,010,000
Treasury shares as a percentage of total shares in issue	-	-	0.9%
Cost of treasury shares (KD thousand)	-	-	39,258
Market value of treasury shares (KD thousand)	-	-	42,487
Weighted average market value per treasury share (fils)	-	-	958

c) Dividend and bonus shares

The Annual General Assembly meeting of the shareholders held on 6 March 2021 approved 5% bonus shares (2020: 5%) and a cash dividend of 20 fils per share (2020: 35 fils per share) for the year ended 31 December 2020. The cash dividend amounting to KD 137,004 thousand was paid subsequently. The bonus shares increased the number of issued and fully paid up shares by 342,509,259 (2020: 326,199,294) and share capital by KD 34,250 thousand (2020: KD 32,620 thousand).

National Bank of Kuwait Group

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

31 March 2021 (Unaudited)

7 Shareholders' equity (continued)

KD 000's

	General reserve	Retained earnings	Foreign currency translation reserve	Cumulative changes in fair values	Share based payment reserve	Actuarial valuation reserve	Proposed cash dividend	Total other reserves
Balance as at 1 January 2021	117,058	1,332,007	(209,496)	25,257	14,409	(5,999)	137,004	1,410,240
Profit for the period	-	84,308	-	-	-	-	-	84,308
Other comprehensive income (loss)	-	-	(6,758)	27,120	-	-	-	20,362
Total comprehensive income (loss)	-	84,308	(6,758)	27,120	-	-	-	104,670
Dividends paid	-	-	-	-	-	-	(137,004)	(137,004)
Realised gain on equity investments at FVOCI	-	9	-	(9)	-	-	-	-
Interest paid on Perpetual Tier 1 Capital Securities	-	(1,461)	-	-	-	-	-	(1,461)
Transaction cost on issue of Perpetual Tier 1 Capital Securities	-	(779)	-	-	-	-	-	(779)
Other movements	-	(164)	-	-	-	-	-	(164)
At 31 March 2021	117,058	1,413,920	(216,254)	52,368	14,409	(5,999)	-	1,375,502
At 1 January 2020	117,058	1,429,694	(207,046)	53,153	14,409	-	226,373	1,633,641
Profit for the period	-	77,673	-	-	-	-	-	77,673
Other comprehensive income/ (loss)	-	-	13,847	(225,573)	-	-	-	(211,726)
Total comprehensive income/ (loss)	-	77,673	13,847	(225,573)	-	-	-	(134,053)
Dividends paid	-	-	-	-	-	-	(226,373)	(226,373)
At 31 March 2020	117,058	1,507,367	(193,199)	(172,420)	14,409	-	-	1,273,215

National Bank of Kuwait Group

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

31 March 2021 (Unaudited)

7 Shareholders' equity (continued)

e) Non-controlling interest

During 2016, Boubyan Bank K.S.C.P, a subsidiary of the Group, issued "Tier 1 Sukuk", through a Sharia's compliant Sukuk arrangement amounting to USD 250,000 thousand. Tier 1 Sukuk is a perpetual security with no fixed redemption date and constitutes direct, unsecured, subordinated obligations subject to the terms and conditions of the Mudaraba Agreement. Tier 1 sukuk is eligible to be classified under equity in accordance with IAS 32 : Financial Instruments – Presentation. The Group did not subscribe to the Tier 1 Sukuk issue and the total amount is included in non-controlling interest in the consolidated statement of financial position. The above Sukuk is callable in May 2021 or any profit payment date thereafter subject to certain redemption conditions.

On 22 March 2021, Boubyan Bank announced a tender offer to the holders of the outstanding Tier 1 Sukuk and received valid tenders of approximately USD 73,900 thousand in nominal amount with a settlement date of 1 April 2021. Boubyan Bank also decided to issue new Tier 1 Sukuk, through a similar Sharia's compliant Sukuk arrangement amounting to USD 500,000 thousand which was fully allocated and priced on 24 March 2021 with a settlement date of 1 April 2021. The new Tier 1 Sukuk is callable after six-years in April 2027 (the "First Call Date") and bears an expected profit rate of 3.95% per annum until the first call date, payable semi-annually in arrears.

8 Perpetual Tier 1 Capital Securities

The Bank issued the following Perpetual Tier 1 Capital Securities (the "Capital Securities"), through wholly owned special purpose vehicles:

	<i>31 March 2021 KD 000's</i>	<i>31 December 2020 KD 000's</i>	<i>31 March 2020 KD 000's</i>
USD 700,000 thousand (issued in April 2015 at an interest rate of 5.75% per annum, semi-annually in arrears, until the first call date in April 2021)	152,737	210,700	210,700
USD 750,000 thousand (issued in November 2019 at an interest rate of 4.5% per annum, semi-annually in arrears, until the first call date in November 2025)	227,738	227,738	227,738
USD 700,000 thousand (issued in February 2021 at an interest rate of 3.625% per annum, semi-annually in arrears, until the first call date in February 2027)	211,295	-	-
	591,770	438,438	438,438

The above mentioned Capital securities are subordinated, unsecured and are eligible to be classified under equity in accordance with IAS 32: Financial Instruments – Presentation. Payments of interest in respect of the Capital Securities may be cancelled (in whole or in part) at the sole discretion of the Bank on a non-cumulative basis. Any such cancellation is not considered an event of default. Payments of interest are treated as a deduction from equity. The Capital Securities have no maturity date and are callable (in whole but not in part) at par at the option of the Bank on the first call date and on every interest payment date thereafter, subject to certain conditions.

During the period, the Bank refinanced its outstanding USD 700,000 thousand Perpetual Tier 1 capital securities issued in April 2015 and callable on 9th April 2021 through pursuing a tender buy-back and simultaneously issuing new Perpetual Tier 1 capital securities. Accordingly, on 21st February 2021, the Bank redeemed the 2015 capital securities aggregating to USD 192,568 thousand and issued new Perpetual Tier 1 capital securities amounting to USD 700,000 thousand. The Bank also announced its intention to exercise the call option for the remaining 2015 capital securities amounting to USD 507,432 thousand on the first call date, 9th April 2021.

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9 Segmental analysis

The Group organises and manages its operations by geographic territory in the first instance, primarily Domestic and International. Within its domestic operations, the Group segments its business into Consumer and Private Banking, Corporate Banking, Investment Banking and Asset Management, Islamic Banking and Group Centre. All operations outside Kuwait are classified as International. Management treats the operations of these segments separately for the purposes of decision making, resource allocation and performance assessment.

Consumer and Private Banking

Consumer Banking provides a diversified range of products and services to individuals. The range includes consumer loans, credit cards, deposits, foreign exchange and other branch related services. Private Banking provides a comprehensive range of customised and innovative banking services to high net worth individuals and to institutional clients.

Corporate Banking

Corporate Banking provides a comprehensive product and service offering to business and corporate customers, including lending, deposits, trade finance, foreign exchange and advisory services.

Investment Banking and Asset Management

Investment Banking provides a full range of capital market advisory and execution services. The activities of Asset Management include wealth management, asset management, custody, brokerage and research.

Islamic Banking

Islamic banking represents the financial results of Boubyan Bank K.S.C.P., the Islamic banking subsidiary of the Group.

Group Centre

Group Centre includes treasury, investments, and other defined Group activities. Treasury provides a comprehensive range of treasury services and products to its clients, and is also responsible for the Bank's liquidity and market risk management. Group Centre includes any residual in respect of transfer pricing and inter-segment allocations.

International

International includes all branches, subsidiaries and associates outside Kuwait.

The following table presents net operating income, profit for the period, total assets and total liabilities information in respect of the Group's business segments:

	31 March 2021						
	Consumer and Private Banking KD 000's	Corporate Banking KD 000's	Investment Banking and Asset Management KD 000's	Islamic Banking KD 000's	Group Centre KD 000's	International KD 000's	Total KD 000's
<i>Three months</i>							
Net operating income	71,482	35,496	8,019	46,591	2,597	57,335	221,520
Profit (loss) for the period	40,667	26,809	4,868	12,357	(5,360)	9,637	88,978
Total assets	4,775,739	5,150,380	64,950	6,771,533	1,977,334	12,260,782	31,000,718
Total liabilities	6,553,267	2,172,455	10,445	6,128,599	94,826	11,774,957	26,734,549

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9 Segmental analysis (continued)

	31 March 2020						
	Consumer and Private Banking KD 000's	Corporate Banking KD 000's	Investment Banking and Asset Management KD 000's	Islamic Banking KD 000's	Group Centre KD 000's	International KD 000's	Total KD 000's
<i>Three months</i>							
Net operating income	72,241	32,494	8,462	42,854	10,366	58,372	224,789
Profit (loss) for the period	41,751	27,020	5,155	10,340	(578)	(1,872)	81,816
Total assets	4,611,686	5,159,825	70,011	6,238,497	2,972,405	11,488,670	30,541,094
Total liabilities	5,651,314	2,687,249	8,610	5,580,856	271,143	12,424,803	26,623,975

10 Commitments and contingent liabilities

	31 March 2021 KD 000's	Audited 31 December 2020 KD 000's	31 March 2020 KD 000's
Commitments on behalf of customers for which there are corresponding liabilities by the customers concerned:			
Acceptances	271,267	204,623	247,773
Letters of credit	431,817	432,378	430,487
Guarantees	3,877,282	3,856,034	3,947,255
	<u>4,580,366</u>	<u>4,493,035</u>	<u>4,625,515</u>

Irrevocable commitments to extend credit amount to KD 1,012,038 thousand (31 December 2020: KD 1,210,802 thousand, 31 March 2020: KD 750,384 thousand). This includes commitments to extend credit which are irrevocable over the life of the facility or are revocable only in response to a material adverse change.

In the normal course of business, the Group has exposure to various indirect credit commitments which, though not reflected in the interim condensed consolidated statement of financial position, are subject to normal credit standards, financial controls and monitoring procedures.

These credit commitments do not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded. Credit losses, if any, which may result from exposure to such commitments are not expected to be significant.

The Group has commitments in respect of capital expenditure amounting to KD 64,307 thousand (31 December 2020: KD 62,319 thousand, 31 March 2020: KD 53,827 thousand).

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11 Fair value of financial instruments

The fair value of financial assets and financial liabilities that are traded in active markets is based on quoted market prices or dealer price quotations. For all other financial instruments the Group determines fair values using valuation techniques.

The Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:

Level 1: quoted (unadjusted) prices 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). This category includes instruments valued using quoted prices for identical or similar instruments in markets that are considered less than active or other valuation techniques in which all significant inputs are observable from market data. Debt securities under this category mainly include sovereign debt instruments in the Middle East & North Africa (MENA) region.

Level 3: valuation techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

The following table provides the fair value measurement hierarchy of the Group's financial instruments recorded at fair value:

<i>31 March 2021</i>	<i>Level 1 KD 000's</i>	<i>Level 2 KD 000's</i>	<i>Level 3 KD 000's</i>	<i>Total KD 000's</i>
Debt securities	3,236,734	384,444	-	3,621,178
Equities and other investments	51,673	106,395	54,319	212,387
	<u>3,288,407</u>	<u>490,839</u>	<u>54,319</u>	<u>3,833,565</u>
Derivative financial instruments (Note 12)	-	(136,056)	-	(136,056)
 <i>31 December 2020</i>	 <i>Level 1 KD 000's</i>	 <i>Level 2 KD 000's</i>	 <i>Level 3 KD 000's</i>	 <i>Total KD 000's</i>
Debt securities	3,216,740	389,193	14,000	3,619,933
Equities and other investments	46,497	173,876	55,284	275,657
	<u>3,263,237</u>	<u>563,069</u>	<u>69,284</u>	<u>3,895,590</u>
Derivative financial instruments (Note 12)	-	(215,221)	-	(215,221)
 <i>31 March 2020</i>	 <i>Level 1 KD 000's</i>	 <i>Level 2 KD 000's</i>	 <i>Level 3 KD 000's</i>	 <i>Total KD 000's</i>
Debt securities	2,827,545	515,016	14,000	3,356,561
Equities and other investments	40,461	99,155	63,739	203,355
	<u>2,868,006</u>	<u>614,171</u>	<u>77,739</u>	<u>3,559,916</u>
Derivative financial instruments (Note 12)	-	(210,592)	-	(210,592)

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11 Fair value of financial instruments (continued)

The table below analyses the movement in level 3 and the income (interest, dividend and realised/unrealised gain) generated during the periods.

	<i>At 1 January 2021 KD 000's</i>	<i>Change in fair value KD 000's</i>	<i>Additions KD 000's</i>	<i>Sale/ redemption KD 000's</i>	<i>Exchange rate movements KD 000's</i>	<i>At 31 March 2021 KD 000's</i>	<i>Net gains (losses) in the interim condensed consolidated statement of income KD 000's</i>
Debt securities	14,000	-	-	(14,000)	-	-	144
Equities and other investments	55,284	(546)	2,203	(2,577)	(45)	54,319	(257)
	<u>69,284</u>	<u>(546)</u>	<u>2,203</u>	<u>(16,577)</u>	<u>(45)</u>	<u>54,319</u>	<u>(113)</u>

	<i>At 1 January 2020 KD 000's</i>	<i>Change in fair value KD 000's</i>	<i>Additions KD 000's</i>	<i>Sale/ redemption KD 000's</i>	<i>Exchange rate movements KD 000's</i>	<i>At 31 March 2020 KD 000's</i>	<i>Net gains in the interim condensed consolidated statement of income KD 000's</i>
Debt securities	14,000	-	-	-	-	14,000	239
Equities and other investments	64,942	(34)	108	(617)	(660)	63,739	218
	<u>78,942</u>	<u>(34)</u>	<u>108</u>	<u>(617)</u>	<u>(660)</u>	<u>77,739</u>	<u>457</u>

12 Derivative financial instruments

Derivative financial instruments are financial instruments that derive their value by referring to interest rates, foreign exchange rates, index of prices or rates and credit rating or credit index. Notional principal amounts merely represent amounts to which a rate or price is applied to determine the amounts of cash flows to be exchanged and do not represent the potential gain or loss associated with the market or credit risk of such instruments.

Derivative financial instruments are carried at fair value in the consolidated statement of financial position. Positive fair value represents the cost of replacing all transactions with a fair value in the Group's favour had the rights and obligations arising from that instrument been closed in an orderly market transaction at the reporting date. Credit risk in respect of derivative financial instruments is limited to the positive fair value of the instruments. Negative fair value represents the cost to the Group's counter-parties of replacing all their transactions with the Group.

The Group deals in interest rate swaps to manage its interest rate risk on interest bearing assets and liabilities and to provide interest rate risk management solutions to customers. Similarly the Group deals in forward foreign exchange contracts for customers and to manage its foreign currency positions and cash flows.

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12 Derivative financial instruments (continued)

Interest rate swaps used to hedge the change in fair value of the Group's financial assets and liabilities and which qualifies as effective hedging instruments are disclosed as 'held as fair value hedges'. Other interest rate swaps and forward foreign exchange contracts are carried out for customers or used for hedging purpose but do not meet the qualifying criteria for hedge accounting. The risk exposures on account of derivative financial instruments for customers are covered by entering into opposite transactions (back to back) with counter-parties or by other risk mitigating transactions.

Interest rate swaps

Interest rate swaps are contractual agreements between two counter-parties to exchange interest payments on a defined principal amount for a fixed period of time. In cross currency interest rate swaps, the Group exchanges interest payment in two different currencies on a defined principal amount for a fixed period of time and also exchanges defined principal amounts in two different currencies at inception of the contract and re-exchanges principal amounts on maturity.

Forward foreign exchange

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

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

	31 March 2021			Audited 31 December 2020			31 March 2020		
	Positive fair value KD 000's	Negative fair value KD 000's	Notional KD 000's	Positive fair value KD 000's	Negative fair value KD 000's	Notional KD 000's	Positive fair value KD 000's	Negative fair value KD 000's	Notional KD 000's
Interest rate swaps (held as fair value hedges)	11,606	152,497	3,463,487	9,447	219,553	3,482,334	12,380	219,089	3,468,206
Interest rate swaps (others)	367	344	49,896	94	75	50,036	95	93	45,061
Forward foreign exchange contracts	11,754	6,942	2,988,210	13,299	18,433	2,736,116	21,462	25,347	3,746,579
	23,727	159,783	6,501,593	22,840	238,061	6,268,486	33,937	244,529	7,259,846

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13 Related party transactions

Related parties comprise Board Members and Executive Officers of the Bank, their close family members, companies controlled by them or close family members and associates of the Group. Certain related parties were customers of the Group in the ordinary course of business. Transactions with related parties were made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with unrelated parties and did not involve more than a normal amount of risk. Lending to Board Members and their related parties is secured by tangible collateral in accordance with regulations of Central Bank of Kuwait.

Details of the interests of related parties are as follows:

	Number of Board Members or Executive Officers			Number of related parties			31 March 2020	31 March 2021	31 December 2020	31 March 2020	31 March 2021	31 December 2020	31 March 2020	31 March 2021	31 December 2020	31 March 2020	31 March 2021	
	31 March 2021	31 December 2020	31 March 2020	31 March 2021	31 December 2020	31 March 2020												Audited
Board Members																		
Loans (secured)	4	3	3	16	15	15	78,685	72,909	71,283									
Contingent liabilities	-	-	-	8	8	9	21,658	23,109	23,848									
Credit cards	5	4	5	22	24	18	67	90	45									
Deposits	9	9	9	54	54	55	39,492	43,041	38,527									
Collateral against credit facilities	4	3	3	12	12	13	271,313	253,188	258,240									
Interest and fee income							352	3,194	1,066									
Interest expense							14	121	61									
Purchase of equipment and other expenses							10	55	16									
Executive Officers																		
Loans	1	1	3	2	5	7	3,288	3,257	3,629									
Contingent liabilities	3	3	3	2	2	2	2	2	2									
Credit cards	5	5	12	10	10	9	63	45	32									
Deposits	12	12	13	32	33	39	7,636	8,874	9,173									
Interest and fee income							15	479	155									
Interest expense							9	90	26									

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13 Related party transactions (continued)

Details of compensation to key management personnel are as follows:

	Three months ended 31 March	
	2021 KD 000's	2020 KD 000's
Salaries and other short term benefits	903	986
Post-employment benefits	49	70
Share based compensation	151	177
	<u>1,103</u>	<u>1,233</u>

14 Impact of COVID-19 pandemic

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

COVID-19 support measures

In 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.

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 period ended 31 March 2021. The Group has considered 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. Furthermore, macro-economic factors are updated to take into consideration the specific impacts of COVID-19. The Group also applied management overlay in assessing the SICR and ECL for the retail segment given that employees of specific industries in the private sector are expected to be most impacted due to COVID-19. Notwithstanding the above, ECL requirement for credit facilities estimated as at 31 March 2021 continues to be lower than the provisions required as per CBK instructions. In accordance with Group accounting policy, the higher amount, being the provision required as per CBK instructions, is therefore recognized as the provision requirement for credit losses on credit facilities.

Other impacts

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