



A better solution is here

# ANNUAL REPORT 2018

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

﴿ فِي السَّمَاءِ رِزْقُكُمْ وَمَا تُوعَدُونَ ﴾

الذاريات ٢٢

**{.. and in the heaven is your sustenance and whatever you are promised}**

True are the words of Allah the Almighty

{Surat Alzaryat Verse 22}



H. H. Sheikh  
**Sabah Al-Ahmed Al-Jaber Al-Sabah**  
The Amir of the State of Kuwait



H. H. Sheikh  
**Nawaf Al-Ahmed Al-Jaber Al-Sabah**  
The Crown Prince



H. H. Sheikh  
**Jaber Al-Mubarak Al-Hamad Al-Sabah**  
The Prime Minister

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# Profile, Vision and Mission

## PROFILE

Warba Bank was established on February 17th, 2010 by virtue of the Amiri Decree No. 289/2009, and was officially enrolled in the Central Bank of Kuwait's Register of Islamic Banks on April 7th, 2010. The State of Kuwait, represented by Kuwait Investment Authority (KIA), owns 25.3% (Direct and Indirect), The Public Institution for Social Security (PIFSS) at 6.417% (Indirect) and Al Sayer Group Holding Company at 10.006% (Indirect), and Mr. Abdullah Saleh Al-Shalfan at 7.354% (Direct).

Warba Bank's overarching objective is to be a world-class Bank, especially in terms of Islamic banking. It offers full-fledged and integrated range of banking and investment services in compliance with the principles of the Islamic Sharia. Warba seeks to grow and expand by means of introducing innovative banking products and unique services, thereby gaining the confidence of customers from various walks of life.

## VISION

To be an Islamic Corporate and Investment Banking Champion in Kuwait with a lean digitally enabled Retail business.

## MISSION

- Help our customers fulfil their life ambitions and grow their businesses by providing innovative financial solutions and outstanding experiences.
- Provide our staff with rewarding growth opportunities and a healthy work environment.
- Deliver steady, growing returns to our shareholders.

## RETAIL BANKING BRANCHES:

12 branches, 13 branch ATMs and 31 offsite ATMs

Hawalli branch	Beirut St – eMall
Qibla branch	Fahad Al Salem St – Awtad Mall – Next to Muthanna Complex
Salmiya branch	Laila Gallery Complex – Next to Ruby Tuesday Restaurant
Sharq branch	Ahmed Al Jaber St – Next to the Police Station Roundabout
Farwaniya branch	Habib Al Monawir St – Next to Metro Complex and Muzaini Exchange
Avenues Mall branch	Grand Avenues – By the Entrance, next to Al Hamra Restaurant
Al Jahra branch	Old Jahra – Marzoug AlMeteb St. – Next to Sahara Mall
Fahaheel branch	Remal Complex – Balat Al-Shuhadaa St.
Eqaila branch	Arabiya Mall – in front of Sama Mall
Mubarak Al-Abdullah branch	West Mishref – PIFSS Building
AlShuhada branch	AlShuhada Block 4, 420 Street, close to Shuhada Co-Operative Society
Almangaf branch	Almangaf Block 4, Fahad Al Hamlan Street, close to Al Mangaf Co-Operative Society .



# Chairman's Message

**In the Name of Allah, the Most Beneficent, the Most Merciful.**

All praise is due to Allah, and Allah's Peace and Blessings be upon His Final Messenger Prophet Muhammad (PBUH), his pure family, his noble companions, and all those who follow.

**Dear Honorable Shareholders,**

**Allah's Peace and Mercy and Blessings be upon you**

On behalf of my fellow Members of the Board of Directors, the Executive Management and myself, it gives me great pleasure to present to you the 8th Annual Report of Warba Bank sharing with you the outcome of our combined efforts and significant achievements throughout the year.

It is quite challenging for us to summarize all our accomplishments during 2018 into few lines as the past year was loaded with an impressive record of achievements despite the challenges faced at the local, regional and global levels. With steady steps and well-founded trust, the Bank pursued the implementation of its Five-Year Strategy Plan (2017-2021) while relying on the solidity of its foundations, the efficiency of its workforce, and the adoption of the best banking practices across all business areas. This strategy has been diligently executed by Warba Bank under the prudent monetary and supervisory policies adopted by the Central Bank of Kuwait and the Capital Markets Authority, which have greatly contributed to the stability and development of the Kuwaiti banking sector.

In this context, we must stress the importance we attach to the "New Kuwait Vision 2035" aspiring to a rejuvenated phase of development and meaningful work that will enable us to overlook the future and embark on our journey as a developed country. We will spare no effort to achieve this goal and do what it takes to attain this Vision's objectives and requirements in light of the optimistic and encouraging outlook of the Kuwaiti economy and the sustainable performance improvement resulting from the recovery of oil production, rising prices and rationalization of spending, in addition to the support of the government development plans aiming at diversifying the sources of income. This will eventually contribute to enhancing the operations, construction and development of this dear country.

To say it in figures, the faithful expression of Warba Bank's performance, the financial statements for the year 2018, reflect the Bank's successful path towards accomplishment and growth. Warba Bank achieved a net profit of KD 12,738 million at the end of 2018 compared to KD 7,454 million for the same period in 2017, a year-on-year increase of 71%. Additionally, the Bank recorded growth rate in its financing portfolio of 27%, accounting to KD 1,607 billion compared to KD 1,263 billion at the end of 2017. The Bank's assets exceeded KD 2 billion for the first time since its incorporation reaching KD 2,193 billion compared to KD 1,775 billion at the end of 2017, a year-on-year increase of 24%. The deposits balance stood at KD 1,888 billion, compared to KD 1,579 billion for the same period in 2017, a year-on-year increase of 20%.

The Bank managed as well to strengthen its capital base reaching KD 285 million by the end of 2018, achieving honorable success of 50% increase in its share capital through the Bank's shareholders' subscription to all offered shares with a total share capital offering amounting to KD 90 million. The allocation percentage of the IPO surplus for the remaining shares after exercising the pre-emption right reached 27.2%.

In 2018, Warba Bank witnessed a qualitative leap. It performed an overhauling of its brand to keep pace with the development achieved by the Bank at all levels, and to mark the footprint it enjoys today in the local banking sector.

Furthermore, the Bank relentlessly seeks to provide cutting-edge banking services to its customers through the successful launching and development of new services and products during 2018, including unprecedented products and services at the local level. Warba Bank strives as well to develop its electronic platform, expand its express bank machines network and launch a range of digital services in line with the Bank's strategy to develop its digital infrastructure, which is constantly evolving at higher paces in the Islamic banking industry to face challenges, competition and risks associated with the market conditions. In order to meet the Bank's expansion policy, Warba Bank has expanded its reach with 12 branches in total spread across the all governorates of the State of Kuwait.

At the corporate banking level, Warba Bank continued to foster its position among its local peers, becoming a leader in this field by financing local companies and projects and enhancing its relations with corporate customers. Moreover, the Bank never ceased to diversify its financing portfolio, especially after increasing the Bank's share capital by the end of 2018. The Bank works on financing various economic sectors, especially oil, education and construction and small and medium-sized enterprises. The Bank has participated as well in syndicated financing with other banks and held a leading role in one of mega deals, while planning to pursue the goal to achieve more balance and a distribution of risks between the real estate portfolio and other sectors during the next two years to eventually reach more diversified ratios.

The Investment Banking Group at Warba Bank has accomplished several investment and financing deals in line with the Bank's strategy focussing on this vital sector, while taking into consideration the major impact of the solid capital base as a result of the share capital increase thus enabling the Bank to further expand future investments within the coming years in several key economic sectors, financing both major national and regional projects, which will benefit the Bank, its shareholders and customers alike.

As for the Bank's credit ratings by the international rating agencies in 2018, Fitch Ratings reaffirmed Warba Bank's rating at "A+" with a stable outlook, Moody's Agency assigned the Bank a rating of Baa2/prime-2 with a stable outlook, in addition to a new assessment of "Counterparty Risk Rating" (CRR) at Baa1. The Bank's outstanding performance during the year was recognized by world-renowned organizations; getting 5 prestigious awards, of which the 'Fastest Growing Bank in the Middle East', the 'Fastest Growing Bank in Kuwait', the 'Best Corporate Bank' in Kuwait, in addition to the 'Best Investment Bank in Kuwait' and the 'Fastest Growing Bank in Asset Growth'.

As part of its corporate social responsibility, Warba Bank strived in 2018 to participate in sponsoring, supporting and backing-up all kinds of initiatives and events, whether human, cultural, professional or scientific. Keen to achieve the Amiri noble goal of supporting the Kuwaiti youth and building on its firm belief that this age group constitutes the country's backbone and promising future, the Bank greatly focused on young people from entrepreneurs and university students throughout the year. Additionally, Warba exerted necessary efforts to empower the professional competencies of its workforce by organizing training sessions contributing to the development of their skills and the fostering their expertise in wide-ranging fields.

Finally, on behalf of my fellow Members of the Board of Directors, the Executive Management and Warba Bank's team, I would like to extend my sincere gratitude and appreciation to His Highness the Amir Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah, His Highness the Crown Prince Sheikh Nawaf Al-Ahmad Al-Jaber Al-Sabah and His Highness the Prime Minister Sheikh Jaber Al-Mubarak Al-Hamad Al-Sabah, may Allah protect and preserve them, for never ceasing to reinforce the banking sector in the State of Kuwait. It is also worth acknowledging the positive and effective role the regulatory bodies and government agencies have played in supporting Warba Bank.

I would also like to convey my sincere appreciation and recognition to Warba Bank's esteemed shareholders and customers for their trust and loyalty considered as the driving force behind our determination to achieve milestones and accomplishments that meet their aspirations. I would like to reiterate my thankfulness and appreciation as well to my fellow Board Members and Board Committees for their devoted efforts and continuous support. In recognition of these efforts, a total remuneration of KD 100,000 has been allocated to the Board Members for the fiscal year 2018. Furthermore, our gratefulness goes to the reverend Chairman and members of the Sharia Supervisory Board of the Bank.

Through the breakthroughs accomplished by Warba Bank, we have been able to reach, thanks to Allah, this leading position today and pave the way for the journey of prosperity that we look forward to achieve in the coming year backed with the full determination and commitment of all Warba Bank's workforce whose sincere performance and constant dedication greatly contributed in turning the Bank's vision into reality, achieving its objectives and moving it forward.

Allah is the best guardian,



**Abdulwahab A. Al Houti**  
Chairman of the Board of Directors



# Board of Directors



**Abdulwahab A. Al Houti**  
Chairman



**Sami Fahad AlRushaid**  
Vice Chairman



**Hani A. Hussain**  
Board Member



**Hisham A. Al Rezouqi**  
Board Member



**Abdulaziz A. Al Jaber**  
Board Member



**Mohamed A. Saleem**  
Board Member



**Ahmed Abdulaziz Alghannam**  
Board Member



**Musaab Omar Al Fulaij**  
Board Member



**Eid Naser AlRasheedi**  
Board Member



**Mohamed R. Al Mutawa**  
Board Member



# Executive Management



**Shaheen H. Al-Ghanem**  
Chief Executive Officer



**Haytham A. Al Terkait**  
Chief Technology Officer



**Khaled H. Hafez**  
Chief Financial Officer



**Simon L. Clements**  
Chief Retail Banking Officer



**Dr. Paul Quigley**  
Chief Risk Officer



**Mohamed El Shareef**  
Chief Strategic Planning Officer



**Mahmoud M. Yousef**  
Chief Internal Auditor



**Mazen Khalid Mandani**  
Acting Chief  
Corporate Banking Officer



**Thuwaini K. Al Thuwaini**  
Acting Chief Investment  
Banking Officer.



**Zahid Rasheed Abdul Rasheed**  
Acting Chief  
Operation Officer



**Mohamed Iqbal Bin Mohamed Iqbal**  
Treasurer



**Abdullah Jassem Hamada**  
Acting Chief Human Resources  
and General Services Officer



# Fatwa and Sharia Supervisory Board Members



#### **SHEIKH DR. ISSA ZAKI ISSA**

Dr. Issa Zaki Issa holds PhD in Comparative Jurisprudence (Fiqh) from the Islamic University of Madina, Saudi Arabia. He is Assistant Professor at the College of Basic Education of the Public Authority for Applied Education and Training, State of Kuwait. He is a member of various Fatwa and Sharia Committees such as Zakat House, General Awqaf Foundation, Warba Bank and others. He has enriched the Islamic library with his collection of literary works and scientific researches. He has a distinguished and prominent participation in many Islamic conferences, seminars and forums.

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#### **SHEIKH DR. ISAM KHALAF AL ENAZI**

Dr. Isam Khalaf Al Enazi is a faculty member at the Faculty of Sharia and Islamic Studies at Kuwait University. He holds a PhD in Islamic Jurisprudence from the University of Jordan and a Master Degree in Islamic Sharia from Kuwait University. He is a member of several prominent Sharia boards such as Accounting and Auditing Organization for Islamic Financial Institutions "AAOIFI", Bahrain Islamic Bank, Investment Dar, Warba Bank, Boubyan Bank and Ahli United Bank. Dr. Al Enazi is one of the regular speakers in conferences and seminars focusing on both Islamic finance and Islamic jurisprudence. He has published numerous papers handling Islamic banking and finance - related issues.

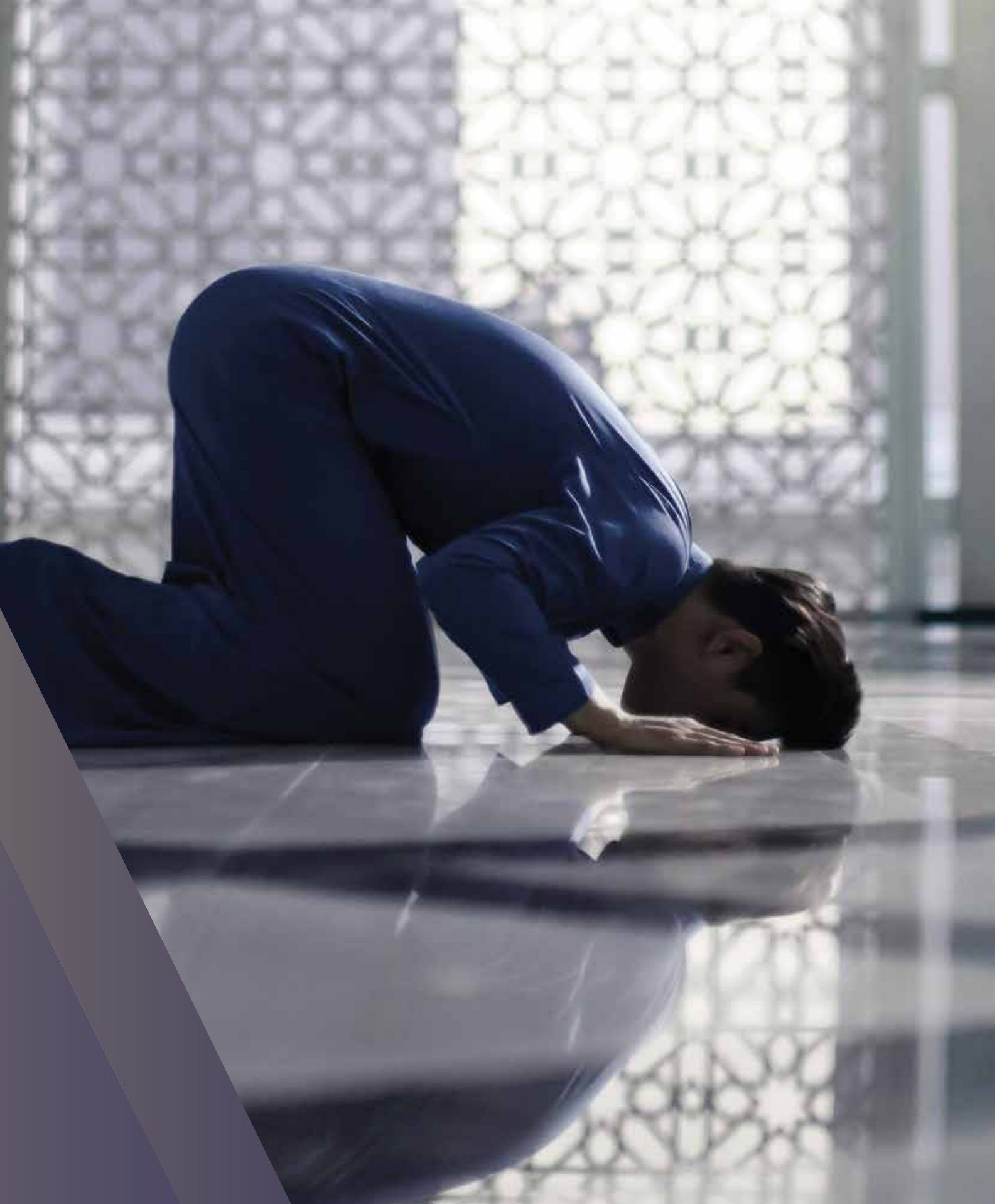
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#### **SHEIKH DR. MOHAMMAD OUD ALFUZAIE**

Dr. Mohammad Oud Alfuzai holds a PhD in Comparative Jurisprudence from the Faculty of Sharia and Law at Al-Azhar University. He is a member of the teaching staff of the Faculty of Sharia and Islamic Studies at Kuwait University. He is a member of Fatwa and Sharia Supervisory Boards of Zakat House, Boubyan Bank and Warba Bank. He has many studies and researches about Sharia supervision on the activities of Islamic financial institutions.

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# Fatwa and Sharia Supervisory Board Report

# Report of Fatwa and Sharia Supervisory Board

**For the fiscal year ended on 31/12/2018**

In the name of Allah, the Most Gracious, the Most Merciful

Praise be to Allah the Lord of the universe, and all blessings and peace on our Master Muhammad, his family, and companions

## **Valued Warba Shareholders,**

Peace, Mercy and Blessings of Allah be upon you

According to the General Assembly's resolution to appoint Fatwa and Sharia Supervisory Board (FSSB) for Warba Bank; a responsibility that has been entrusted to us, we present to you the following report:

At FSSB of Warba Bank, we have examined and reviewed the Bank's principles and contracts relevant to the products offered by the Bank during the fiscal year ended on 31/12/2018. We applied due diligence in conducting our examination and review to express our opinion on whether or not the Bank is in compliance with the provisions and principles of the Islamic Sharia, as well as the Fatwas, resolutions, principles and guidelines issued by FSSB.

We undertook reasonable examination and review that included checking the contracts and procedures used by the Bank, on test basis for each type of transactions. In addition, we have obtained all the information and explanations required to express an opinion on the extent of Bank activities' compliance with the provisions of the Islamic Sharia.

It is noteworthy that the responsibility for executing such provisions, principles and Fatwas and purifying any non-sharia compliant income lies with the Bank's Management, while our responsibility is to express an independent opinion based on the relevant information that has been presented to us which we reviewed.

We believe that the contracts, documents and transactions introduced by the Bank during the fiscal year ended on 31/12/2018, which we have reviewed, have been concluded in compliance with the provisions and principles of the Islamic Sharia.

It is important to note that Warba Bank does not pay Zakat on behalf of shareholders, and the FSSB's responsibility is limited to calculation of the amount of due Zakat per share.

During the fiscal year ended on 31/12/2018, FSSB held 16 meetings attended by all members.

Finally, we supplicate to Allah, the Almighty, to support the Bank's management endeavors in serving our holy religion and beloved country, and to guide and support us all.

Peace, Mercy and blessings of Allah be upon you.



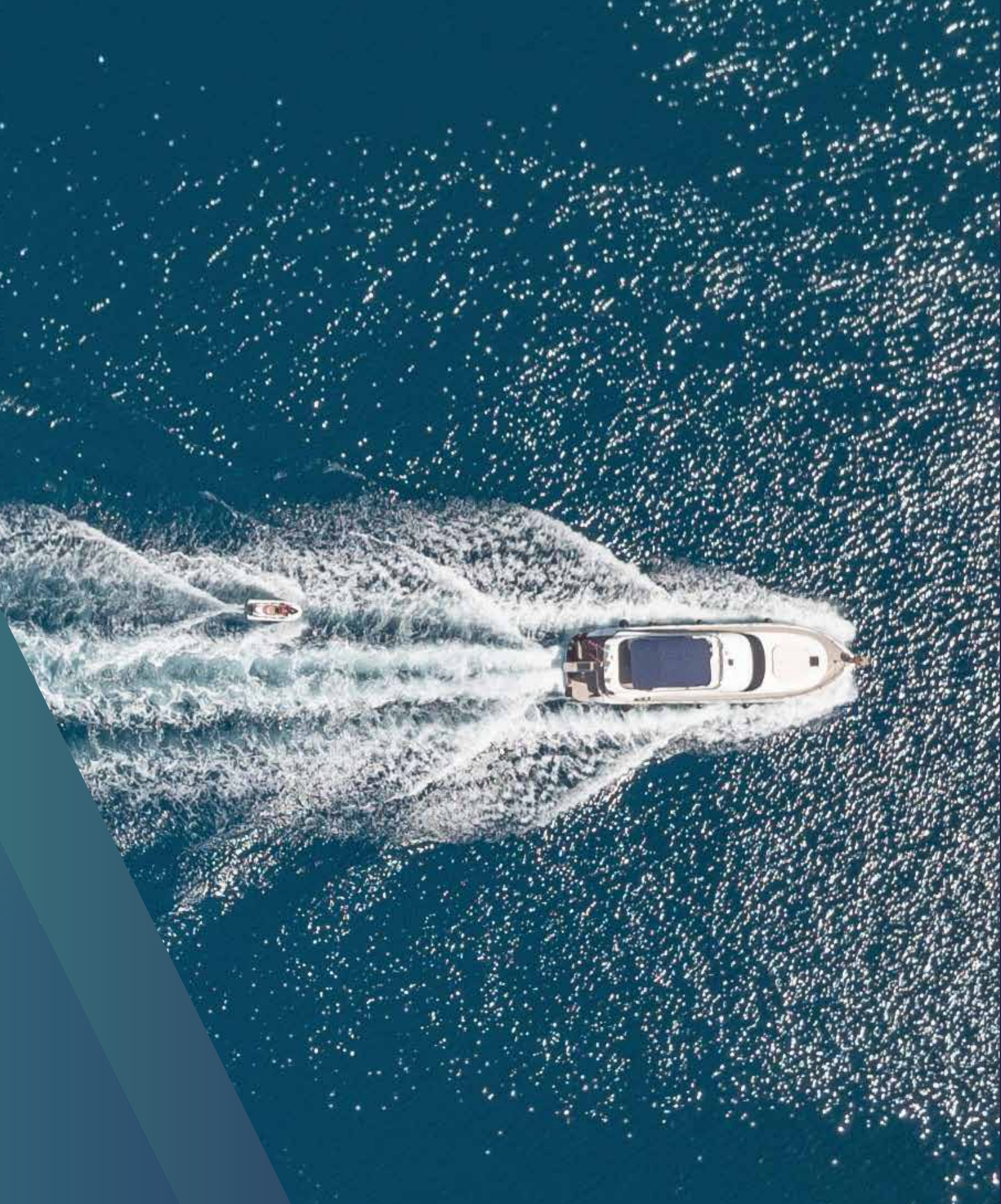
**Sheikh Dr. Issa Zaki Issa**  
Chairman of FSSB



**Sheikh Dr. Isam Khalaf Al Enazi**  
Member and Rapporteur of FSSB



**Sheikh Dr. Mohammad Oud AlFuzai**  
Member of FSSB



# Management Discussion and Analysis Report

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## INTRODUCTION

Warba Bank's Corporate Governance and Risk Management best practices are at the core of Warba Bank's mission with the prime responsibility vested at the level of the Board of Directors for an effective oversight of all risks that impact the Bank's activities. Board Committees are set-up specifically for Risk, Governance and Audit to assist the Board of Directors in discharging its responsibility. Independent assessment by external rating agencies, Moody's and Fitch, has recognized the robust risk and controls framework within the Bank as a positive factor.

## RISK MANAGEMENT PHILOSOPHY

Warba Bank has embedded a risk culture across the organization in its endeavor to ensure that the broad spectrum of risk types is managed effectively in its business and operational activities. The Risk Management framework is designed to provide direction on and raise awareness of risks throughout the organization. The Risk Management Group (RMG) is headed by the Chief Risk Officer (CRO) and operates independently of all business lines. The CRO reports to the Board Risk Committee (BRC). Risk Management is viewed as a strategic partner in achieving an appropriate balance between risks and growth objectives.

RMG actively engages with each line of business throughout the business cycle to achieve the appropriate mix of assets and liabilities to protect the Bank's balance sheet and income. It has responsibility for the identification, measurement, monitoring, mitigation and reporting of all risks to Senior Management and the Board with the specific objective of ensuring the sustainability of the Bank's financial performance and position.

## RISK MANAGEMENT FRAMEWORK

Warba Bank has established a comprehensive framework for managing all material risks identified under Basel guidelines, including Credit, Market, Operational, and Information Security Risks. The Bank complies with all guidelines for managing risks as advised by CBK. RMG has established effective risk management processes to create a dynamic link between risk appetite and returns target, within the framework of regulatory controls applicable to the Bank and the Capital Adequacy Ratio (CAR) requirements. RMG is also responsible for recommending bank-wide appropriate Risk Appetite Limit that is approved by the Board of Directors.

The Risk Management Group adopts a proactive approach in managing risks. This approach helps in analyzing macro-economic environments, early detection of emerging risks, conducting stress tests of associated risks encountered by the Bank. RMG provides guidance and balance to business activities, advises the Executive Management, informs the Board Committees and the Board of Directors on the Bank's position and performance within approved risk parameters or recommends the need for fine-tuning the risk profile of the Bank due to ever-changing macro-economic and/or business and geo-political risks.

## RETAIL BANKING GROUP

In spite of the increasingly competitive retail banking market, 2018 has been another year of significant growth for the Group. The group's balance sheet has shown strong growth both in terms of financing and deposits. During the year we have attracted 20,000 new customers. Whilst assets have grown our NPL ratio is being maintained well below the market average and reflects a prudent lending policy and highly effective collections process. The combination of asset and low-cost deposit growth and a carefully managed cost base has seen the Group move into sustained profitability during the year.

Whilst all the sales channels have performed well during the year we have seen particular success in the auto finance market. We have forged ever closer relationships with the major auto dealerships participating in many joint promotions. The introduction of a new Auto Cash product and the introduction leasing capabilities as well as sponsoring the first auto-financing exhibition to be held in Kuwait have established the bank as a recognized market leader in this segment.

In line with the bank's vision being a "Lean digitally enabled Retail Bank" there have been a number of new initiatives rolled out during the year. Perhaps the most significant of these was the introduction of the first mobile onboarding application in the Kuwait market. Launched in the first quarter, the application facilitates the opening of accounts with no need to visit the branch. This has resulted in 15% of new customers being acquired through this new digital channel. This not only enhances and enriches the customer experience but also significantly lowers the cost of acquisition. This initiative was then followed by the launch of a mobile application allowing customers to apply for financing using their mobile phone, this has also had similar success. During the year several functional enhancements were introduced to our mobile and online services ensuring we continue have the most functionally rich offering in the market.

The branch network has undergone a complete refurbishment in line with the bank's rebranding. This has enhanced the customer experience and has been well received by our clients. Whilst we will continue introduce new digital solutions, branches still have an important role to play and we have identified several strategic locations for new branches. Towards the end of the year we successfully won the tender for a 24x7 branch in the new Kuwait Airways Terminal at Kuwait International Airport which will open in early 2019. In addition to this we will see some new branches open in 2019.

During the year the Group entered into a strategic relationship with Diebold to completely revamp our ATM network, replacing all ATMs with the latest ATM technology. This lease-based approach was the first of its type in the market and has allowed to us grow our ATM network at a reduced cost. We now have 13 in-branch ATMs and 30 offsite ATMs in high footfall locations.

We have undertaken a full transformation of the Call Centre implementing new systems and introducing a dedicated team to handle customer interactions through all social media channels. Again, this has successfully enhanced the customer experience and ensured that our service quality is maintained at the highest levels.

In support of the growing credit card business the bank has implemented FALCON a market leading real time fraud management system. This provides our customers with the assurance and comfort that their cards are fully protected at all times.

## **CORPORATE BANKING GROUP**

In 2018, the Corporate Banking Group (CBG) played a pivotal role in providing top-notch financing services for both corporate and retail sectors which have resulted in significant expansion in the CBG operations in vital influential business sectors.

The CBG operations expansion also included a quantum and qualitative development in line with the growth in the financing portfolio; it has significantly succeeded in attracting non-cash operations compared to previous years, while maintaining acceptable risk levels that paved the way for securing revenues growth. CBG enhanced diversification of its operations by focusing on value added business sectors such as construction, retail and development projects.

Despite the relatively short years of operation of Warba Bank, being the most recent bank in the Kuwait Market, as well as the big difference in terms of size compared to its peers, CBG has been able to position itself as a strong competitor by virtue of service excellence provided by high standard of professional skilled national caliber delivering outstanding performance. While CBG has continued to maintain the growth record, by achieving the target expansion while maintaining the highest quality standards and risk mitigation, it has achieved a remarkable growth in its financing portfolio by 42% for non-cash facilities, and 21% for cash facilities in 2018; as a result, CBG has maintained the highest quality and regular financing portfolios at the local level and managed to attract new customers.

On services' development level, in 2018 a number of services have been developed topped-up by the significant development of the corporate website, providing the largest number of electronic services in the banking sector; moving forward, in 2019 the website will undergo a series of enhancements offering more services and solutions marked with flexibility and convenience.

Moreover, during last year, CBG has been able to launch a new corporate financing product; a product dedicated to financing cash requirements under the working capital financing products in addition to the development of an automated system to finance outlets' vendors, which is expected to achieve a quantum leap in providing this type of financing in a faster, easier and more accurate way. As well, in 2018, CBG launched the financing operations for residential properties as well as industrial plots.

It's noteworthy that despite CBG's recent entry into the market, it has been able to seize many expansion opportunities in various financing sectors. While the Board of Directors has already approved a series of expansion's opportunities, CBG is currently studying the convenient infrastructure from a balanced strategy perspective, for fast implementation.

## **INVESTMENT BANKING GROUP**

The Investment Banking Group (IBG), within its mandate for providing international banking and investment services to customers in the local, regional and international market, has concluded key deals through various IBG departments.

The Structured and Syndicated Finance Department ("SSF") had another very successful year with solid performance in Syndicated Finance and Debt Capital Market Activities. Several notable transactions were concluded during the year for customers in Kuwait and across the region. During the year, Warba Bank was appointed as a Joint Lead Manager on USD 500 million Noor Bank Sukuk issuance, Sole Initial Mandated Lead Arranger and Bookrunner for KWD 76 million facility for National Industries Group, Mandated Lead Arranger and Bookrunner on USD 246 million Facility for Vakif Participation Bank and acted as Mandated Lead Arranger and Investment Agent in a debut syndicated Facility of KWD 140 million for Kuwait Oil Tanker Company, a wholly-owned subsidiary of Kuwait Petroleum Corporation. In addition to the aforementioned transactions, Warba Bank was successful in participating in several landmark cross-border financing opportunities.

2018 saw the Real Estate Investment Department ("REI") remain committed to growing its global real estate investments. The Bank's real estate investment portfolio grew by 40% year-on-year from USD 163 million at the end of 2017 to USD 229 million at the end of 2018. A total of nine real estate properties were acquired and/or committed to acquire in the USA, in the multifamily sector, with a total gross acquisition value of USD 448 million and USD 65 million deployed out of total equity commitment amount of USD 133 million, alongside internationally reputed joint venture partners. These properties are geographically diversified across various states and gateway cities in the USA, namely, Dallas, Houston, Austin, Atlanta, Phoenix and Pittsburgh, and are strategically located in suburban markets that are supported by strong demographic fundamentals.

The Direct Investment and Capital Market Department ("DICM") manages the Bank's strategic investments and proprietary investments across multiple asset classes. DICM follows a disciplined approach in managing the Bank's proprietary investment portfolio. A risk budget for the Portfolio is developed periodically based on goals, time horizon and tolerance for volatility. Subsequently, the IBG frames an allocation strategy that diversifies across asset classes and geographies while monitoring total factor exposures. This allows for a better structuration of the investment process from an asset-liability management perspective and enables more efficient harvesting of risk premia.

The Financial Institutions Department ("FID") is a dedicated function within IBG to support the bank's institutional brand awareness and standing in the local and international banking industry. FID, which manages banking and non-banking financial institutions relationships, witnessed decent growth in its trade and cash business in 2018.

Throughout the year, FID focused on increasing its correspondent banking network in targeted regions and countries to increase the business volumes across all banking operations and to satisfy customers' international Sharia-compliant banking needs through its diversified global correspondent network.

In 2018, FID realized adequate diversification in its revenue composition, particularly in its Treasury solutions, and made strong strides in its trade and cash business.

Looking ahead, FID will continue to enhance business relations with local and international financial institutions on trade finance, and FI bilateral facilities.

In line with its strategic aspirations and its mission to provide improved financial solutions to its customers, Warba Bank received Kuwait Capital Markets Authority's ("CMA") initial approval and renewable engagement for certain securities activities in August 2018. The Bank is working on fulfilling licensing requirements for the following securities activities, namely, investment portfolio manager, collective investment scheme manager, investment advisor, subscription agent and custodian. Warba Bank is set to launch its fiduciary investment management services in mid to late 2019.

## **OPERATIONS GROUP**

The year 2018 was very much successful for the bank and a quite challenging year for Operations Group as well as providing the extensive back-end support to all business areas (including Corporate Banking, Investment Banking, Treasury front office, Retail Banking) in achieving their financial targets in line with bank's strategic direction. Operations Group being a resilient back-end support partner has developed its function and processes supporting revenue generation and ultimate customer satisfaction.

Operations Group capabilities are properly aligned with overall business objectives and goals which has shown the significant impact on business performance, enhanced and exceeded the service level throughout the year, catered for the existing and new business products, timely executed critical transactions applying regulatory and operations controls and maintained a high level of accuracy that ultimately resulted in excellent customer service. There was an overall increase of about 60% in transactional volume during the year.

Operations Group has paid substantial attention towards identifying, optimizing, enhancing and automating many major processes which resulted in cost and time saving which are not limited to: automation; of exchange house transactions currency wise, retail customer clearance certificate, reconciliation process, online salary processing, LC contract generation, Bloomberg integration with core banking system and an initiative towards paperless banking.

Operations Group conducted cross-training sessions throughout the year for business group's staff to enhance their skills and knowledge about operations processes and systems awareness, plus an internal learning mechanism was adopted for the maximum utilization of staff capabilities and their development.

## **INFORMATION TECHNOLOGY GROUP**

The year 2018 was filled with challenges for the Information Technology Group (ITG). Not only was ITG able to deliver on these challenges, it also continued to evolve and improve to provide new services and deliver solutions aligned with the Bank's strategy for addressing the most critical business needs.

With full commitment, ITG fostered creative and innovation use of technology giving the Bank a strategic advantage. ITG promoted effective stewardship of information assets and provided a secure, highly reliable technology infrastructure along with the high-quality customer-oriented services and support to meet the ever-changing requirements of the business.

ITG made significant progress in the enhancement of several business applications and systems in the year 2018. With the adoption of agile development and project management methodologies, ITG played a vital role in the development and deployment of leading digital and smart banking solutions that directly benefit customers.

Below are the highlights of the ITG's key achievements during 2018:

- Performance enhancements of the Core Banking system and the middleware infrastructure
- Successful roll-out of the digitized Customer On-boarding and Personal Finance origination and tracking customer journeys
- Major enhancements and rebranding of the Corporate and Retail Online and Mobile banking platforms
- Compliance on all external interfaces of the Bank for cryptographic enforcement
- Increased Disaster Recovery resiliency with minimized recovery time for critical business applications and channels
- Commitment to regulatory compliance and governance standards through effective and satisfactory reviews of ITG controls
- Completion and delivery of more than 52 bank wide projects

ITG also continued to fortify its security posture and cyber-defence strategy by enhancing technologies and investigative capabilities to thwart and deter cybersecurity attacks. In a region where many financial institutions have been prone to vulnerabilities and cyber-attacks, ITG's efforts have tremendously contributed in maintaining the overall stability and security of the Bank.

With the delivery of innovation-centred initiatives in 2018, ITG helped the Bank improve the efficiency of its operations, secure its future, and ensure both the acquisition and retention of customers.

## **TREASURY GROUP**

While the external environment continued to be volatile, the Bank's Treasury continued to progress in alignment with the Bank's Strategy and attained new successes during the year. Two new products were deployed: Profit Rate Swap to hedge against the rise in market rates and Collateralized Murabaha to broaden the Bank's access to liquidity.

A dedicated Corporate Sales Desk was established to serve the needs of the Bank's customers with better focus and to support the Relationship Managers in deepening their customer reach. As the flow and diversity of business grew, the need to enhanced risk mitigation measures increased and this year saw the establishment of a Treasury Middle Office whose role is to act as a 'checker' as well as provide real time analytical support to the Front Office. 2018 also saw the commencement of the Treasury automation project which is expected to go live in the first quarter of 2019.

Business continued to grow on all fronts with deposits growing by more than 55% and Foreign Exchange volume by 10% translating into a 30% increase in FX profits, a 100% increase in Operating Income and a 119% increase in Treasury net income. Proactive management of the funding portfolio ensured that the Bank's cost-of-funds remained contained and the various Central Bank mandated regulatory ratios and limits were complied with at all times.

Focus continues to be on the training and upskilling of Treasury personnel. During the year, they attended numerous courses locally and regionally. Additionally, four of the junior team members were sent on a two-week attachment in London with our business partners in order to provide them with training and exposure. Training and development will continue to be a key area of focus in 2019 as we look forward to an even better year for the Bank and the Group.

## **AML UNIT**

The Bank's AML & CFT policies, procedures and internal controls include due diligence in the acquisition of new customers (Know Your Customer – KYC), ongoing monitoring of account behavior and reporting of suspicious transactions to the relevant authorities for investigation. The bank applies a risk-based approach and has invested in improvements in its on-boarding and account monitoring systems in addition to strengthening internal controls to ensure effective and adequate AML & CFT measures are taken before processing the transactions. These

systems and controls screen all applicants and customers to ensure that the Bank is not providing banking services or products to individuals or corporate entities blacklisted on local Kuwaiti or international sanctions lists.

Warba Bank has invested heavily in staff training for new recruits and ongoing training for existing employees in order to maintain awareness of the laws of Kuwait and CBK regulations relating to AML/CFT as well as existing and developing methods of money laundering and terrorist financing. These take the form of quarterly awareness training sessions delivered by external experts. Attendance by all staff is compulsory.

Annually, an independent audit is carried out by the Internal Audit Group of Warba Bank of the Bank's compliance with the instructions of the Central Bank of Kuwait. Furthermore, an international audit firm analyses AML & CFT internal control systems within the Bank.

Warba Bank is in compliance with the requirements of the FATCA and the CRS. It has modified its account opening forms, "KYC" and customer onboarding procedures. A Certified Audit Firm provides independent assurance that Warba Bank has complied with these requirements as promulgated in Kuwait prior to the Bank's submission of these reports to the Ministry of Finance.

## CORPORATE SOCIAL RESPONSIBILITY

In 2018, Warba Bank increased its Corporate Social Responsibility (CSR) activities. As part of its commitment to support the various sectors of the Kuwaiti society, the Bank took part in and sponsored numerous social activities and events in various sectors including health, sports, culture, and education, amongst many others.

Committed to the virtuous Islamic principles that underline compassion and mercy, Warba Bank has been actively practicing voluntary and humanitarian works with the objective of maintaining the principle of brotherly compassion and social relationships within the community. In this respect, the Bank's team of volunteers visited the outpatient children at the Amiri Hospital to help alleviate their pain, and also visited the homes for the elderly for the same purpose.

During the Holy Month of Ramadan, the bank carried out a number of activities including a partnership with the Food Bank to distribute meals to those fasting as well as serving prayers at the Grand Mosque during the last ten days of the Holy Month.

In the educational sector, the bank's team visited a number of government schools to join the celebration of the start of the academic year and present gifts to the students and the teaching staff. The bank and its employees also shared some valuable information and experience pertaining to Islamic banking with university students through a number of lectures delivered by the bank's group heads at various Kuwaiti universities.

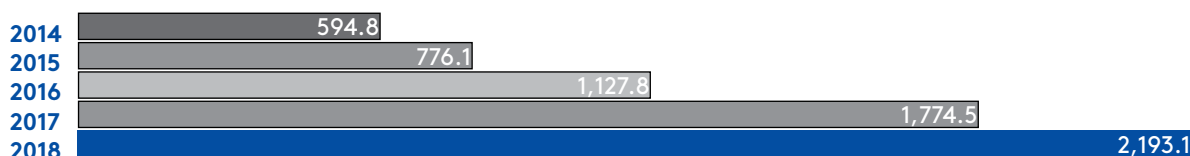
In addition, at the end of the year, the bank entered into a joint strategic partnership with the Public Relations Club of the Gulf University for Science and Technology whereby it was agreed that Warba Bank would sponsor the Club's activities during 2019 for the benefit of the youth.

Warba Bank is also keen on promoting the a healthy lifestyle with the aim of helping curtail the spread of obesity which has become a threat to the Kuwaiti society. The bank has encouraged all to avail its 'Fayez' app, the first of its kind in Kuwait, by launching a number of events to raise awareness about the importance of sports and exercise, including a walkathon in which many app.users took part.

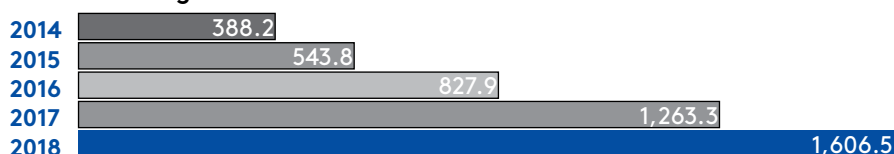
With regard to the corporate social responsibility towards its workforce, the bank organized a number of recreational events and professional skill-enhancement functions designed specifically for its staff. This initiative emanates from Warba's firm belief that its workforce is the backbone of its success and that such events create stronger relationships amongst employees and foster the spirit of teamwork and constructive, high-level competitiveness. The events included a football championship as well as a Holy Quran memorization competition for staff children during Ramadan. Furthermore, the bank honored its volunteers for their great efforts and invaluable work.

## Key Financial Indicators

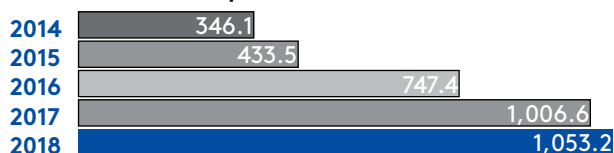
### Total Assets



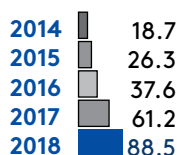
### Financing to Customers



### Customer Deposits



### Total Revenues



The total revenues for the year 2018 reached KD 89 million, at a growth rate of 45% compared to the revenues at the end of 2017. The total assets of the Bank grew to KD 2.193 billion at the end of 2018 at a growth rate of 24% at the end of 2018 while customers' deposits reached KD 1.053 billion at a growth rate of 5%. The Bank realized profit of KD 12.7 million for the year 2018 at a growth rate of 71%. The Bank's capital adequacy ratio recorded 24.26%, while the minimum requirement mandated by CBK instructions is 13.0%. This reflects the Bank's solid financial position and future capabilities to expand assets base.

## 2019 FUTURE OUTLOOK

### Global Economy

Global growth has moderated during 2018 and this downward trend is poised to continue in 2019. The global economy is projected to slow moderately from 3.8% in 2018 to 3.5% in 2019, led by deceleration in the US and further softening in China mainly due to the trade tensions in the major economies. Commodity prices are expected to generally stabilize in 2019, following sharp movements last year. Oil prices averaged \$68 per barrel in 2018 and are expected to hover around \$67 per barrel in 2019. Agricultural prices are projected to remain broadly stable in 2019. A decline is expected in the unemployment rate to 3% and a rise in core inflation to 2.25% by early 2020.

### GCC Economy

GDP growth for the region is projected to increase during 2019 and reach 3% compared to 2.4% in 2018. The forecast of positive GDP growth is mainly due to an increase in the oil output and higher oil prices that would result in a moderate GCC government spending, which is a major source of growth in the region. Non-oil GDP growth in the GCC for 2018 was 2.7%, while the corresponding 2019 estimate is 2.9% supported by the implementation of public investment projects, like the five-year development plan in Kuwait, Qatar's infrastructure investment projects ahead of the FIFA 2022 World Cup and ongoing preparations for Expo 2020 in the UAE.

## Kuwait Economy

The outlook for the Kuwait economy looks encouraging with steadily improving performance particularly due to recovery of the oil output. The overall GDP growth is estimated to be at 2.2% during 2019 with Oil-GDP expected to rise by 1.5% in 2019 from 3% in 2018 and Non-oil growth forecast of 3.0% in 2019 compared to 2.8% in 2018. Fiscal position has improved during the last two years due to higher oil prices and spending restraints. The deficit is forecasted to be narrowed to just 0.5% of GDP with a balanced budget, as compared to 9% during the FY17/18. Inflation is expected to rise in 2019 to an average of 2%, primarily due to hike in food and housing sector, compared to a downwardly 0.6% in 2018.

## Kuwait Banking Sector

In 2018, Kuwaiti banking sector delivered the strongest earnings growth among its GCC peers and this trend is forecasted to continue during 2019 with average earnings at Kuwait banks to rise by 15% driven by 6.4% increase in loans and a double-digit growth in 2019-2020. The CBK raised discount rate, which determines the maximum lending rate in line with the US Federal Reserve in March 2017 and 2018 while skipping increases in December and June 2017. Based on an assumption of two interest rate hikes during 2019, the banks may see average margins increase by up to seven basis points. Infrastructure and the government spending is forecasted to grow at steady pace which may benefit the Banks and ease pressure on the core earnings. Liquidity is also expected to remain ample backed by government and related entity deposits.

## Warba Bank

2018 has proven to be a second successful year in Warba's 5-years strategy of 2021. The effective strategy execution enabled the Bank to leverage and further build-up its strengths, primarily in the domains of innovation-driven differentiation, high customer satisfaction, and superior product offerings with competitive pricing. To support its strategy, Warba has completely overhauled its Brand in 2018 and switched to a distinctive new identity that stands out for its employees, clients and external stakeholders. Warba's proposition with the new Brand identity is to position the bank as a solution-oriented ambitious challenger in the Kuwaiti banking industry. 2018 also witnessed a great milestone of a 50% capital increase for Warba, amounting to KD 90 million, which would support the Bank's ambition of accelerating its sustainable and profitable growth. The Bank concluded 15+ sizeable investments and launched 20+ new products and services; a few being the first of their kind domestically and in some cases regionally as well. Warba supported its digital-first retail strategy through the expansion of its express bank machines network and new services in the like of digital onboarding and express finance to name a few.

Warba won 5 prestigious awards for its outstanding performance during 2018 including the 'Fastest Growing Bank' in Middle East, 'Fastest Growing Bank' in Kuwait from 2 different awarding entities, 'Best Corporate Bank' in Kuwait, and 'Best Investment Bank' in Kuwait. Warba's credit ratings were re-affirmed by Fitch Ratings for "A+" and Moody's for "Baa1" along with an addition of a new classification of "counterparty risk rating" (CRR) based on the capital increase of Warba.

In 2019, the Bank will focus on 5 key pillars of "expansion", "product innovation", "customer experience", "efficiency" and "people" for pursuing its strategy of becoming an Islamic Corporate and Investment Banking Champion with a lean digitally enabled Retail business. The Expansion pillar will be supported through series of initiatives related to introduction of new business lines namely asset management and private banking, introduction of a digital operating model, opening of 6 new branches, and leveraging the capital increase to grow Warba's financing portfolio along with effective capital allocation and management. On the efficiency front, series of initiatives will be undertaken in the domains of process optimization and digitization to support a sustainable growth of the Bank. A rigorous focus will be put forth into customer experience through a variety of initiatives for delivering a best-in-class experience for our corporate, investment and retail customers. In terms of product innovation, Warba has a plan to deliver 10+ innovative initiatives during 2019 to further enrich its products offerings for its corporate, investment and retail banking customers. Finally, for its people pillar, several initiatives related to HR, culture, staff engagement, employee experience and talent capitalization will be pursued by Warba to position the bank as the best employer, creating a culture with highly motivated and engaged staff.



# Governance Report

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# The Corporate Governance Report

## INTRODUCTION

Warba Bank is committed to applying best practices in governance within the framework of the Central Bank of Kuwait's instructions issued in June 2012 on Corporate Governance Rules and Regulations at Kuwaiti Banks. The Bank has fully complied with these regulations in terms of designing the systems, organizational structures and functions that ensure institutional control. In addition, the Bank pays due diligence for full commitment to the implementation of the nine key pillars of the governance rules and regulations at Kuwaiti banks.

The commitment to corporate governance rules and regulations ensures that Warba Bank has the ability to balance risk-related activities appropriately, maximizing protection of shareholders' returns. In addition, Warba Bank believes that having robust corporate governance principles safeguards the interests of all key stakeholders as well as serving as a shield against all forms of mismanagement and fraud activities and enhances the accountability and transparency at the Bank.

Throughout 2018, Warba Bank has updated all relevant governance charters, manuals, policies and procedures as part of a comprehensive review for improvements.

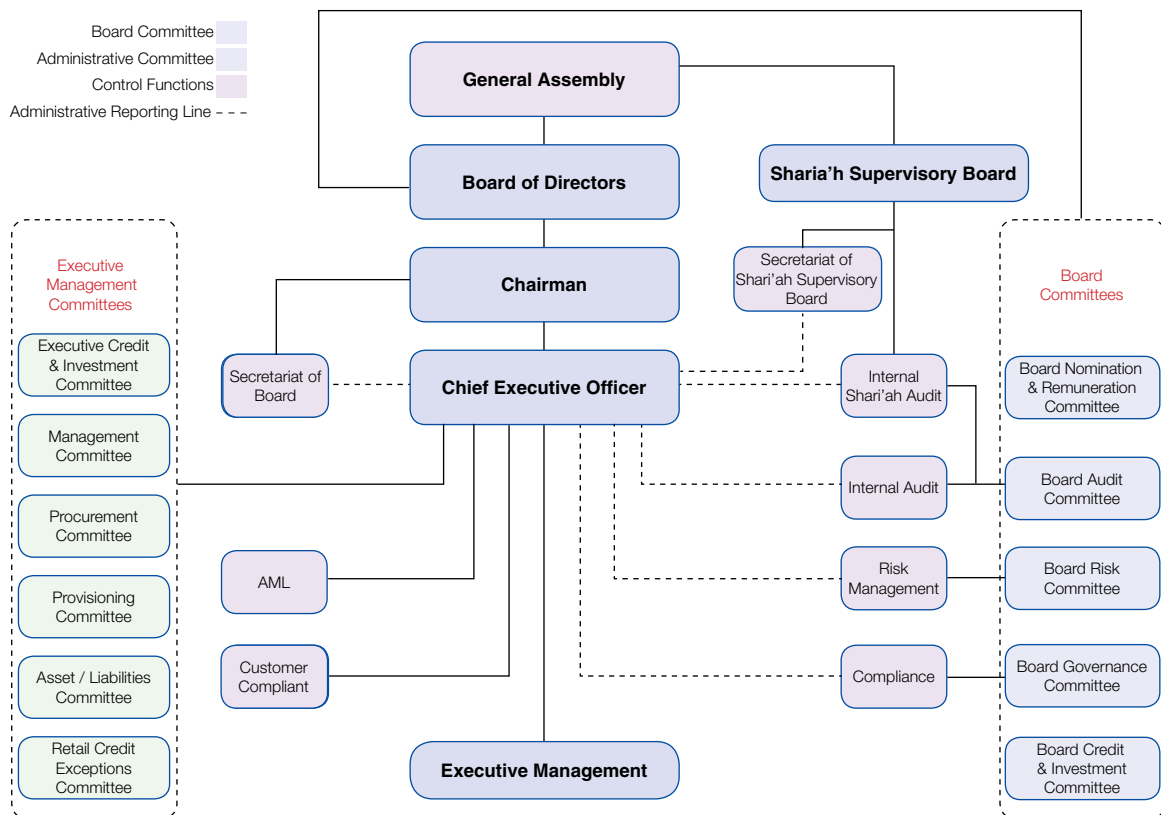
Therefore, Warba Bank prides itself on having a robust and sound governance framework, based on regulatory instructions, that helps to apply best practices of sound governance.

### WARBA BANK'S KEY SHAREHOLDERS (5% AND ABOVE)

Name	Shareholding Percentage
Kuwait Investment Authority	24% Direct - 1.63% Indirect
The Public Institution for Social Security (PIFSS)	6.298% Indirect
Al Sayer Group Holding Company	10.006% Indirect
Abdullah Saleh Al-Shalfan	7.354% Direct

### ORGANIZATIONAL STRUCTURE

The Bank’s organizational structure has been designed taking into consideration maintaining transparency and clarity to facilitate decision – making process, achieve sound corporate governance and define authority limits that clearly set key responsibilities and duties of the Board of Directors, Executive Management and heads of supervisory and control functions in the Bank. In 2017, the Bank’s organizational structure was updated to cover all CBK requirements. The last update was made on 10/10/2018.



## **BOARD OF DIRECTORS**

### **ROLES AND RESPONSIBILITIES**

The Board of Directors continues to assume full responsibilities stipulated in the Articles of Association and Corporate Governance instructions issued by the Central Bank of Kuwait on 20/6/2012. These generally focus on preserving the interests of depositors, shareholders, creditors and employees. As part of compliance with the Corporate Governance rules and instructions, the Board of Directors has approved all corporate governance policies, set new ones and ensured putting them into practice in addition to approving the Corporate Governance Manual and uploading it to the Bank's website.

The Board of Directors is responsible for reviewing and approving the Bank's Strategic Plan, setting the budget and comparing targets with actual results and setting business priorities. The Board of Directors also monitors the implementation of such strategies. It also sets and approves the policies covering the Bank's various activities.

The Board of Directors is responsible for monitoring the Bank's vulnerabilities to ensure having in place the proper structures for managing risks and internal controls; reviewing the adequacy and availability of systems in light of the laws and regulations applicable on the Bank; ensuring there are in place written policies covering the Bank's various activities and that they are annually reviewed for enhancement and improvements. The Board of Directors, in cooperation with the Executive Management, reviews the policies and regulatory controls on regular basis, including internal control and supervisory functions, in order to identify and tackle weaknesses and risks areas for improvements; and ensures that control and supervision functions are performed satisfactorily, have the required functional support and that they perform effectively and independently.

### **BOARD MEMBERS TRAINING DURING 2018**

Warba Bank pays utmost care to training programs for members of the Board of Directors as these programs are critical pivotal in developing leadership skills. During 2018, the Bank in coordination with external specialized training and advisory institutes held various training program about "AML/CFT", in addition to "the Advanced Risk Oversight" provided by the Institute of Banking Studies. The Board members have been given the chance to attend the "10th annual Euromoney Conference - Kuwait".

### **BOARD MEMBERS FOR THE SESSION (2016 – 2018)**

At the Ordinary General Assembly meeting held on 30 March 2016, a representative for Kuwait Investment Authority "KIA" was appointed for the third session of the board, and nine members were elected. Mr. Musab Omar Al Fulajij was appointed as representative for KIA instead of Dr. Mahmoud Ahmed Abdulrahman under KIA letter dated 17/7/2017.

In its meeting dated 29 March 2018, the Board of Directors approved the resignation of Mr. Basel Ahmad Al Haroun as a member of the Board of Directors and the recalled the First Reserve Member, Mr. Eid Nasser Al Rashidi to the Board of Directors for the remaining period of the Third Session (2016- 2018).

## BRIEFS ON BOARD MEMBERS

### 1. **Mr. Abdulwahab Abdullah Al Houti** – Chairman (Elected):

Al Houti holds a Bachelor Degree in Business Administration from Kuwait University in 1976 and Master of Business Administration from Newhaven University – USA in 1979. He is a Board Member in Warba Bank since 2013 then elected to be the Board Chairman in March 2016 until date. He is also the “volunteer” advisor of the Chairman of the International Islamic Charity Organization from 2009. He commenced his career as a faculty member and head of Business Administration department at the Commercial Institute during the period from 1979 to 1983, and then assumed the position of Department Director and Assistant Undersecretary in the Ministry of Awqaf and Islamic Affairs from 1983 to 1994. Al Houti became the Deputy Secretary-General of Waqfi Channels at the General Secretariat of Awqaf from 1994 until 2004. He has been a board member in a number of companies and banks, namely Boubyan Bank, Bangladesh Islamic Bank, Capinvest Bank and Real Estate Asset Management Company (REEM).

### 2. **Dr. Basel Ahmad Al Haroon** – Vice Chairman till 29 March 2018 (Elected):

Al Haroon holds a Bachelor of Science degree in Business Administration from Saint Augustine University in the United States of America in 1988 and Executive Master Degree in Business Administration from the American University of Beirut in 2008. He also had the Strategic Management Program from Harvard University in 2010. He has been the Vice Chairman of Warba Bank’s Board of Directors since March 2016 to date. He gained banking experience from his career extending over 23 years at the Central Bank of Kuwait from 1989 to 2012 where he held several leading positions such as the Director of the Off-Site Supervision Department, Director of Foreign Operations Department and finally the Executive Director of Operations and Research Sector. Then in 2012, he was appointed by an Amiri Decree as a member of Kuwait Capital Markets Authority’s Board of Commissioners and continued in this position until 2014.

### 3. **Mr. Sami Fahad Al Rushaid** – Vice Chairman from 11 April 2018 (Elected):

Al Rushaid holds a Bachelor of Science degree in Industrial Engineering from Miami University in the United States of America in 1978. He has been a member of Warba Bank’s Board of Directors since March 2016 and elected as Vice Chairman since April 2018 to date. He is the Chairman of the Board of Directors of the Scientific Center and the Chairman of the Board of Directors of Kuwait Airways Company and appointed as a member of the Board of Directors in Kuwait Petroleum Corporation since January 2017 till date. He has long experience in the oil sector acquired throughout his career at Kuwait National Petroleum Company from 1978 to 2007 where he held several positions such as the Board Chairman and Managing Director in the last three years of his tenure. He then took over as a Board Chairman and Managing Director of Kuwait Oil Company from 2007 to 2013. He has been a Chairman or member of the board of directors in a number of companies operating in the oil sector such as Kuwait Oil Company, Kuwait Petroleum Corporation and Kuwait National Petroleum Company.

### 4. **Mr. Ahmad Abdulaziz Al Ghannam** – Board Member (Elected):

Al Ghannam holds a Bachelor of Science degree in Business Administration from Grand View University in the United States of America in 1987. He has been a member of Warba Bank’s Board of Directors since March 2016 to date. He began his career in the Commercial Bank of Kuwait in the Trading Room and Credit Operations from 1987 to 1991. Then He moved to Al Ghannam Group of Companies holding several key positions from 1992 to date. He has been a Chairman and board member in many companies operating in educational and medical services, investment and trade sectors such as KAPICO Group Holding Company, Murabahat Investment Company, Gulf Land Holding Company, Sama Medical Services Company, Excellence Education Company for Educational Services, Dar Al Arqom Educational Services Company, Eyas Educational Holding Company and Al Oula Fuel Company, He is also a member of the Board of Directors of the Public Authority of Minors Affairs since March 2017 to date.

**5. Mr. Abdulaziz Abdullah Al Jaber** – Board Member (Elected):

Al Jaber holds a Bachelor of Science in Electrical Engineering from Washington University in the United States of America in 1979. He is a member of Warba Bank's Board of Directors since March 2016 to date. He began his career in Kuwait Oil Company from 1979 to 2004, where he held several positions until he became the Executive Assistant of the Managing Director for Administration Affairs. He then moved to Kuwait Petroleum Corporation in the position of the Executive Assistant for Privatization Affairs from 2004 to 2005. He began a new career in 2005 at Kuwait Finance House as Assistant General Manager of the Support Services Sector then General Manager of Human Resources and General Services Sector and then a consultant until 2014. He has been Chairman or member of the board of directors in a number of companies such as Petrochemical Industries Company, Gulf Oil Company and Human Investment Corporation.

**6. Mr. Eid Nasser Al Rashidi** – Board Member from 29 March 2018 till date (Elected):

Al Rashidi holds a Bachelor Degree in Petroleum and Natural Gas Engineering from West Virginia University - USA in 2001 and Master of Business Administration from Maastricht University in 2010, He recently joined Warba Bank Board of Directors on 29th March 2018. In 2011 he co-founded FGA Partners LLC a special situations private equity firm, He is also the Board Chairman of Al Rayah United Insurance Brokerage Company, Board member of Integral Holdings Company, Board member of Al Masaleh Investment Company and a member of Kuwait Entrepreneurs Group, an advocacy group that promotes pro-business policies in Kuwait, he also works as a regional affiliate of Golden Gate Capital since 2013. He started his career in 2001 at Kuwait Investment Authority "KIA" where he served over 10 years. From 2003 to 2005 he was delegated to the KIA London Office to serve as an Investment Analyst, He represented KIA in the Board of Directors of Unitech Company in Bosnia and Al Ajjal Investment Fund Holding in Morocco.

**7. Mr. Mohamed Riyad Al Mutawa** – Board Member (Elected):

Al Mutawa holds a Bachelor of Finance Degree from Kuwait University in 2001. He is a member of Warba Bank's Board of Directors since March 2016 to date. He currently holds the position of Investment Manager at the Kuwait Investment Authority from 2001 to date. He has been a member of the board of directors in a number of companies such as Pakistan Kuwait Investment Company, Farah Al Magrib Real Estate Company and National Offset Company. He participated in several training courses, programs and seminars in various fields.

**8. Mr. Mohamed Abdulredha Saleem** – Board Member (Elected):

Mr. Saleem holds a Bachelor of Business Administration in Finance from the Kuwait University in 1985. He is a member of Warba Bank's Board of Directors since March 2016 to date. He has gained professional experience from his service over 30 years at Kuwait Investment Authority since 1986 where he held various positions including the Treasury Department Manager from 2006 to date. He has been Chairman or member of the board of directors in a number of companies such as Generations Fund Holding Company from 2010 till date, Kuwaiti Yemeni Real Estate Development Company, Kuwait Investment Company, the Egyptian Kuwaiti Real Estate Development Company, Gulf Custody Company, Kuwait Real Estate Holding Company, Kuwait Flour Mill and Bakeries Company and Travel and Conferences Company in Tunisia. He also participated in many theoretical and practical courses with leading banks and global financial institutions in areas of portfolios management, investment and capital markets.

**9. Mr. Musab Omar Al Fulajj** – Member of the Board of Directors  
(Representative of Kuwait Investment Authority):

Al Fulajj holds a Bachelor of Science degree in Business Administration, Finance Major from Saint Louis University USA, 1997. He has been a member of the Board of Directors at Warba Bank representing Kuwait Investment Authority since September 2017 to date. He started his career in EQUATE Petrochemical Company from 1997 to 2001. Then he moved to Kuwait Investment Authority in 2001 till date currently serving as Senior Investment Manager. He participated as a member in the board of directors in several companies and committees such as the International Civil Company in France, the Advisory Committee of the Agricultural Portfolio at Kuwait Industrial Bank. He has been participating as a member in the Advisory Committee of the Industry Finance Portfolio in accordance with the provisions of Islamic Sharia since 2010. This in addition to participating in many courses, training programs and seminars in various fields.

**10. Mr. Hani Abdulaziz Hussain Al Terkait** – Board Member (Elected):

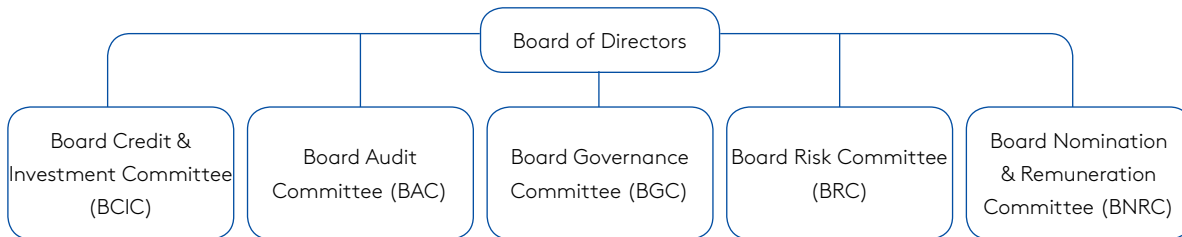
Al Terkait holds a Bachelor of Science in chemical engineering from Tulsa University in the United States of America in 1971. He has been a member of Warba Bank's Board of Directors from March 2016 to date. He has deep experience in the oil sector gained through his career of over 35 years in Kuwait Petroleum Corporation. He joined KPC in 1972 where he served in Kuwait National Petroleum Company, a KPC subsidiary, then moved in 1980 to Kuwait Petroleum Corporation until 2007 where he held several leading positions such as the Vice Chairman and CEO for the last three years of his tenure in KPC. He has appointed Oil Minister in the Kuwaiti Government by virtue of an Amiri Decree in February 2012 and continued holding this position until 2013. He has been a board member in a number of local and international companies such as Petrochemical Industries Company, Kuwait National Petroleum Company, and The Public Authority for Industry, Hoechst Company in Germany. He is currently a member of the board of the Supreme Council of Planning and a member of the Board of directors of Kuwait Foundation for the Advancement of Sciences.

**11. Mr. Hisham Abdulrazzaq Al Razzuqi** – Board Member (Elected):

Al Razzuqi holds a Bachelor Degree in Public Administration from the American University of Beirut in 1973, and Senior Management Program from Harvard University in 1988. He is a Board Member in Warba Bank since August 2013 to date. He commenced his career in Kuwait Foreign Trading and Contracting Investment Company from 1974 to 1984, assuming several positions, the last of which was the Deputy General Manager. He then joined Gulf Investment Corporation as Deputy CEO from 1984 to 1995, promoted to General Manager from 1995 to 2001, then to CEO from 2001 to 2012. He is the Chairman of the Advisory Board for the Gulf Center for Economics and Business Research and also worked as a consultant to the International Business Conference Board (New York), and a faculty member of Sulaiman Al Olayan School of Business Administration – American University of Beirut. He served as a board member or Chairman in more than 20 local and regional companies, banks and financial institutions, namely Bahrain Steel Company, International Gulf Bank of Bahrain, National Industrialization Company and Al Zamil Industrial Investment Company in KSA, Warba Bank, Kuwait Investment Company, Tawasul Telecom Company, Kuwait Reinsurance Company and Global Investment House.

## BOARD COMMITTEES – MEMBERSHIP AND DUTIES

The Board of Directors has established five Board-level Committees and delegated them with the responsibilities to act on its behalf on specific matters. The respective committees are established in line with corporate governance principles at banks and the applicable regulatory requirements.



### BOARD CREDIT AND INVESTMENT COMMITTEE (BCIC)

The Committee reviews, evaluates, develops and recommends for the Board’s approval all issues related to financing and investment proposals, fees and commissions, financing portfolio performance, investments, as well as the legal actions taken for non-performing financing. The Committee has specific delegated approval authority for Credit Financing and Investment decisions. The Committee is composed of the following members;

- Mr. Ahmed Abdulaziz AlGhannam                      Chairman
- Mr. Abdulaziz A. Al Jaber                              Vice Chairman
- Mr. Sami Fahad AlRushaid                            Member
- Mr. Hisham A. Al Rezouqi                             Member

### BOARD AUDIT COMMITTEE (BAC)

The Committee reviews the scope, effectiveness and extent of adequacy of the internal and external audit of the Bank as well as key accounting issues of material impacts on the Bank’s financial information and internal controls. The Committee ensures sufficiency of the resources designated for control functions. The Committee reviews the Bank’s financial statements before submission to the Board of Directors for ensuring the adequacy of the necessary provisions.

BAC evaluates the performance of the Chief Internal Auditor and his remunerations and considers the recommendation of the Executive Management regarding the appointment and termination of external auditors and determining their fees. The Committee is composed of the following members;

- Mr. Mohamed A. Saleem                                Chairman
- Mr. Musab Omar Al Fulajj                             Vice Chairman
- Mr. Mohamed Riyad Al Mutawa                     Member

**BOARD GOVERNANCE COMMITTEE (BGC)**

The Committee assists the Board of Directors to fulfill the governance responsibilities, prepares and updates the Bank's corporate governance manual and ensures compliance of the Bank's related parties with implementing governance requirements and rules. The Committee submits reports to the Board of Directors on these issues, reviews the contents to be published in the annual report in respect of corporate governance. The Committee is composed of the following members;

**BGC members till 29 March 2018:**

Mr. Basel Ahmed AlHaroun	Chairman
Mr. Mohamed A. Saleem	Vice Chairman
Mr. Abdulwahab A. Al Houti	Member
Mr. Hani A. Al Terkait	Member

**BGC members from 11 April 2018:**

Mr. Hani A. Al Terkait	Chairman
Mr. Mohamed A. Saleem	Vice Chairman
Mr. Abdulwahab A. Al Houti	Member
Mr. Eid Nasser Al Rashidi	Member

This is in accordance with the Board of Directors' decision in its meeting dated 11 April 2018 approving the reformation of the Board Committees in which Mr. Basel Ahmed AlHaroun was a member.

**BOARD RISK COMMITTEE (BRC)**

The Committee assists the Board of Directors to perform its duties and responsibilities in respect of strategies, risk appetite and risks associated with financing and investment activities. The Committee is also responsible for highlighting and developing the Bank's Risk Strategy, Risk Appetite and other risk related measures; reviewing the reports of the Risk Management Group; reviewing the Bank's Risk and Control policies and recommends their approval by the Board of Directors. The Committee is composed of the following members;

**BRC members till 29 March 2018:**

Mr. Hani Abdulaziz Hussain Al -Turkait	Chairman
Mr. Mohammed Riad Al -Mutawa	Vice Chairman
Mr. Ahmed Abdul Aziz Al-Ghannam	Member
Mr. Bassel Ahmed Al -Haroun	Member

**BRC members from 11 April 2018:**

Mr. Hisham A. Al Rezouqi	Chairman
Mr. Hani Abdulaziz Hussain Al -Turkait	Vice Chairman
Mr. Ahmed Abdul Aziz Al-Ghannam	Member
Mr. Mohammed Riad Al -Mutawa	Member

This is in accordance with the Board of Directors' decision in its meeting dated 11 April 2018 approving the reformation of the Board Committees in which Mr. Basel Ahmed AlHaroun was a member.

## BOARD NOMINATIONS AND REMUNERATIONS COMMITTEE (BNRC)

The Committee assists the Board of Directors in determining the eligibility of the nominees to the board membership, the nominees for the positions of CEO, CEO's deputies and assistants. It also ensures the efficiency and application of the Nomination Policy and its consistency with the Bank's objectives, ensures the efficiency and integrity of compensation and rewards policies and practices in the Bank.

The committee has engaged Mercer Management Consulting as an external consultant to update the long and short-term incentive programs, the performance management framework, the new salary structure, the remuneration policy for senior management and all Bank staff, and the commission system for staff of profit centers. The Committee is composed of the following members:

The Committee is composed of the following members;

Mr. Sami Fahad AlRushaid	Chairman
Mr. Abdulaziz Abdullah Al Jaber	Vice Chairman
Mr. Musab Omar Al Fulajj	Member

## ATTENDANCE AT MEETINGS OF THE BOARD AND THE COMMITTEES OF THE BOARD FOR THE PERIOD FROM 1 JANUARY 2018 TO 31 DECEMBER 2018 (THIRD ROUND)

s. Member	Position	BoD	BCIC	BAC	BRC	BGC	BNRC
1. Abdulwahab Abdullah Al Houti	Chairman	16				4	
2. Sami Fahad Al Rushaid**	Member	14	25				7
3. Ahmad Abdulaziz Al Ghannam	Member	15	26		7		
4. Abdulaziz Abdullah Al Jaber	Member	15	26				7
5. Eid Nasser Al Rashidi***	Member	12				4	
6. Mohamed Riyad Al Mutawa	Member	17		11	10		
7. Mohamed Abdulredha Saleem	Member	13		9		4	
8. Musab Omar Al Fulajj	Member	16		10			7
9. Hani Abdulaziz Hussain Al Terkait	Member	13			9	5	
10. Hisham Abdulrazzaq Al Razuqi****	Member	13	23		6		
Total Number of Board and Committees' meetings in 2018		17	28	11	10	5	7

Notes: Membership of Mr. Basel Ahmad Al Haroon in the board of directors continued till the Board of Directors approval on resignation on 29 March 2018.

\* Membership of Mr. Basel Ahmad Al Haroon in the board of directors continued till the Board of Directors approval on resignation on 29 March 2018.

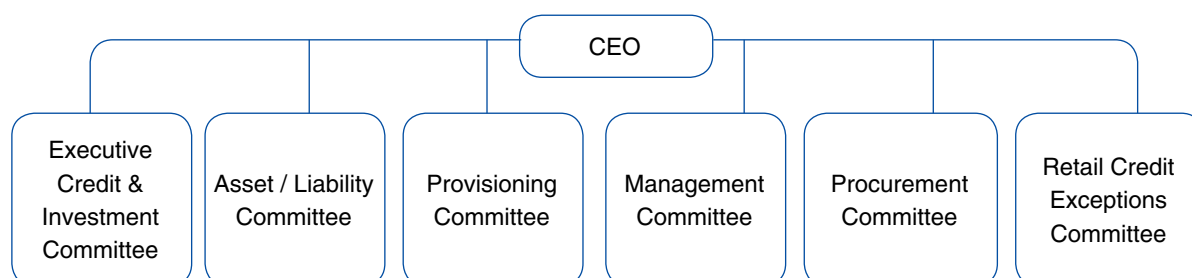
\*\* The Board of Directors approved the nomination of Mr. Sami Fahad Al Rushaid as Vice Chairman of the Board of Directors on 11 April 2018.

\*\*\* Mr. Eid Nasser Al Rashidi has become a member of the Board of Directors since 29/March 2018 and a member of the Board Governance Committee since 11 April 2018.

\*\*\*\* Mr. Hisham Abdulrazzaq Al Razuqi. has become a member of the Board Risk Committee since 11 April 2018

## MANAGEMENT COMMITTEES – DUTIES AND RESPONSIBILITIES

The Board of Directors has approved the formation of certain Executive Level Committees for performing ad-hoc tasks and responsibilities in order to assist the Chief Executive Officer “CEO” in the efficient and effective administration of the Bank. All the committees are chaired by Mr. Shaheen Hamad Alghanim, The Bank’s CEO.



### EXECUTIVE CREDIT AND INVESTMENT COMMITTEE (ECIC)

ECIC is authorized to consider all credit financing and investment proposals. The Committee approves such proposals or refers them to the Board Credit and Investment Committee as per delegated authority. The ECIC is responsible for monitoring and reviewing the Bank’s financing and investment portfolio and taking the appropriate measures to ensure sound performance of the Bank’s financing and investment assets.

### ASSETS AND LIABILITY MANAGEMENT COMMITTEE (ALCO)

ALCO is responsible for all matters related to managing and controlling the balance sheet including all aspects of assets and liabilities, assets allocation, liabilities structure, liquidity requirements and all other matters in respect of capital adequacy and managing market risks and liquidity risks to which the Bank is exposed. The Committee is responsible for supervising all aspects of optimal balance of assets and liabilities on the short, medium and long term to ensure business growth and profitability while maintaining compliance with the regulatory and financial requirements.

### PROVISIONING COMMITTEE

The Provisioning Committee is responsible for analyzing and evaluating all outstanding exposures under approved financing facilities and investments, for the purpose of determining whether or not an exposure is impaired or has any signs of irregularity; warranting that provisions are built in accordance with the internationally accepted financial reporting standards and Central Bank of Kuwait regulatory requirements. In addition, the Committee is delegated to review debt write-offs and provide relevant recommendations to the Board of Directors.

### MANAGEMENT COMMITTEE (ManCom)

The Committee is responsible for developing and implementing the Bank’s Vision and Strategy. It convenes regularly to ensure information flow and consensus views to the Executive Management in respect of decisions affecting the Bank’s overall organization and position. The Committee’s scope of work includes, but not limited to, matters pertaining to the Bank’s business plans, policies, processes and procedures, new products and services programs, special projects, human resources, and information technology. It also tackles and decides on all other issues which do not fall within the remit of any specific committee.

## PROCUREMENT COMMITTEE

The Procurement Committee was established to ensure that the procurement process of all goods, services, contracts and works necessary for Bank's business are undertaken properly according to transparent, effective, and timely approach; taking into account best practices in the field of procurement. The main role of the Committee is to oversee the Bank's needs for procuring products and services that fit their objectives. The Committee ensures that procurement is carried out in proper time, at the right place and against the appropriate cost in such a manner that balances the overall corporate requirements of consumption rationalization, transparency and accountability. It also ensures that the procurement activity is performed in accordance with the highest ethical standards of fair and equitable treatment with suppliers and vendors who provide the Bank with services and goods.

## RETAIL CREDIT EXCEPTIONS COMMITTEE (RCEC)

The Retail Credit Exceptions Committee (RCEC) has been formed for reviewing all personal finance transactions that require thoughtful and deeper study, giving opinion about the viability of granting exceptions and taking decisions for approval / disapproval depending on specific credit grounds and rationale in the best interest of the Bank's long-term business objectives under acceptable risk tolerance parameters.

## THE EXECUTIVE MANAGEMENT

S	Name	Title	Experience
1.	Shaheen Hamad Al-Ghanem	Chief Executive Officer	30 years
2.	Khaled Hasan Hafez	Chief Financial Officer	25 years
3.	Paul Quigley	Chief Risk Officer	40 years
4.	Mahmoud Mohammad Yousef	Chief Internal Auditor	38 years
5.	Simon Larby Clements	Chief Retail Banking Officer	43 years
6.	Haytham Abdulaziz Al Terkait	Chief Information Technology Officer	30 years
7.	Mohamed Iqbal Bin Mohamed Iqbal	Treasurer	28 Years
8.	Mohamed Atif El Shareef	Chief Strategic Planning Officer	19 years
9.	Zahid Rasheed Abdul Rasheed	Acting Chief Operation Office	26 Years
10.	Thuwaini Khalid Al Thuwaini	Acting Chief Investment Banking Officer	13 Years
11.	Mazen Khalid Mandani	Acting Chief Corporate Banking Officer	20 Years
12.	Abdullah Jassem Hamada	Acting Chief Human Resources and General Services Officer	13 years

## BRIEF ON THE EXECUTIVE MANAGEMENT

### Shaheen Hamad Alghanem - Chief Executive Officer

Alghanem holds a Master's degree in Business Administration from Maastricht University, a Bachelor's degree in Accounting from Kuwait University. He has broad and long experience for more than 30 years in banking and investment. He began his career in the oil sector from 1988 to 1999, then moved to the financial and investment sector where he served as assistant chief financial officer in the International Investor Company in 1999. He moved to Kuwait Finance House in 2001 where he held several positions in various departments, the last of which was general manager of international banking department in 2012 and acting chief investment officer in 2013. Alghanem joined Warba Bank in 2014 as Deputy CEO for Investment and Treasury then has assumed the position of chief executive officer since 2016 to date.

### Khaled Hasan Hafez - Chief Financial Officer

Hafez obtained bachelor degree in Accounting from Cairo University. In addition, he is a fellow member of the Chartered Accountants Association in USA, and holder of CPA from the Accounting Council of California, and a Diploma in Islamic Economy from Faculty of Sharia – Kuwait University. Hafez has over 25 years of experience in

the area of Islamic Banks, financial institutions and auditing. He worked at a number of the top global biggest audit and consultancy firms, as well, he held an executive position in Kuwait Finance House. He joined Warba since incorporation and has contributed in setting the Bank, its infrastructure and organization. Currently, he holds the position of the Chief Financial Officer.

**Paul Quigley**- Chief Risk Officer

Paul holds a PhD in Accounting and Finance from the University of Birmingham, a Master of Science Degree in Investment and Treasury and a Bachelor of Business Studies Degree from Dublin City University. He was a Fulbright scholar at the University of Illinois in Urbana -Champaign. He has more than 40 years experience in banking, academia and public administration. He worked for Allied Irish Bank's as General Manager (Risk Measurement and Architecture) for 12 years and for Kuwait Finance House as CRO for 4 years. Previously he worked at the Irish Department of Finance and the Revenue Commissioners. Dr. Paul Quigley joined Warba Bank as CRO in August 2018.

**Mahmoud Mohammad Yousef** - Chief Internal Auditor

Yousef graduated from Brooklands Technical College, Weybridge, Surrey, England and holds High National Certificate "HNC" in Computer Studies in addition to an 'A' Level in Computer Science. He is certified in Risk and Information Systems Control (CRISC) from the Information Systems Audit and Control Association (ISACA), USA. He is also Chartered Internal Auditor holding the designation (CMIIA) from the Chartered Institute of Internal Auditors (IIA) and the highest Qualification in Internal Audit Leadership (QIAL) from the Institute of Internal Auditors Global (IIA Global). He has long experience extending for more than 38 years. He worked at National Bank of Kuwait (NBK) from 1983 for 28 years in the positions of Assistant General Manager and Deputy Chief Internal Auditor. He joined Warba Bank as a Chief Internal Auditor in 2011 to date.

**Simon Larby Clements** - Chief Retail Banking Officer

Clements holds a Bachelor's degree in Business Administration from the UK. He has over 43 years of experience in financial services in Europe, Asia and the Middle East Region. He has previously held senior executive positions at several leading banks where he headed the operations and technology group. He has also successfully managed the retail business of two mid-sized Kuwaiti banks in recent years. As a senior executive, Clements has developed and implemented strategies at several institutions with significant success. He joined the Bank in 2014 as Chief Operations Officer and now serves as the Chief Retail Banking Officer.

**Haytham Abdulaziz Al Terkait** - Chief Information Technology Officer

Al-Terkait holds Bachelor of Science in Mechanical Engineering from Metro State - Denver, Colorado - USA. He attended many key specialized training courses on IT sciences. Al Terkait has over 30 years of experience in this field acquired throughout his career, as he worked for Kuwait Institute for Scientific Research from 1989 to 2002 and Kuwait Finance House from 2002 to 2012 as Infrastructure Services manager. He joined Warba Bank in 2012 as Chief Information Technology Officer and played significant role in setting up the infrastructure of Information Technology Group in the Bank.

**Mohamed Iqbal Bin Mohamed Iqbal** - Chief Treasury Officer

Mohamed Iqbal holds a B.Sc. Business Administration from Oklahoma State University, USA. He has long experience for over 28 years of experience in the banking and finance industry. He held a number of major positions such as General Manager, Malaysia's Employees Provident Fund in 2004, Chief Officer at Kuwait Finance House Malaysia Berhad, Chief Treasury and International Business Officer 2011-2012 Kuwait Finance House Malaysia Berhad, Chief Retail and Commercial Banking Officer and as the Bank's Chief Transformation Officer. Mohamed Iqbal joined Warba Bank in May 2016 and now holds the position of the Chief Treasury Officer.

**Mohamed Atif El Shareef** - Chief Strategic Planning Officer

El Shareef holds a Bachelor Degree in Electrical and Electronics Engineering from the Middle East Technical University and a Master's degree in Information Systems and Technology Management from Barrington – Atlanta University – USA. He has more than 19 years of experience in the banking industry, where he held several positions in National Bank of Kuwait “NBK” such as Executive Manager, Head of Performance Analysis and Reporting Division from 2001 to 2012 and then moved to Boubyan Bank in 2012 where he served as Assistant General Manager, Head of Business Performance and Planning Division till 2015. Then, he joined Warba Bank as Chief Strategic Planning Officer.

**Zahid Rasheed Abdul Rasheed** - Acting Chief Operations Officer

Zahid holds a Bachelor Degree of Science from Punjab University, 1990 – Pakistan and Master of Business Administration in Banking and Finance from Preston University, Islamabad, Pakistan, with more than 26 years of banking experience. He held several key positions such as Senior Business Analyst at Boubyan Bank (2005 – 2008), Head of Section - Investment Operations Department (2008 – 2011). Then he moved to Warba Bank as manager of the Central Operations 2015. He returned to Kuwait Finance House in 2015 as manager of the Central Operations and later moved to Al Ahli United Bank as head of the Central Operations Sector. He finally joined Warba Bank in 2017 and now holds the position of Acting Chief Operations Officer.

**Thuwaini Khalid Al Thuwaini** - Acting Chief Investment Banking Officer

Al Thuwaini holds a Bachelor Degree in Economics from the University of Maryland, College Park. He has 13 years of experience in banking and finance. He started his career at The International Investor in 2005 and then moved to Boubyan Bank in 2006 as senior financial analyst. In 2007, he moved to Al-Imtiaz Company - International Investment Division. Afterwards, He moved to Rasameel Structured Finance Company in 2008 where he held several positions, including the Vice President - Head of Deal Structuring and Analytics, until 2015. Finally, he joined Warba Bank in 2015 and serves as Acting Chief Investment Banking Officer till date.

**Mazen Khalid Mandani** - Acting Chief Corporate Banking Officer

Mandani holds a Bachelor Degree of Science in Public Business Administration from the University of Arizona, USA, with more than 20 years of experience in the field of credit and corporate finance. He started his career at Gulf Bank in 1998 and then moved to Al Ahli Bank of Kuwait, where he worked as Assistant General Manager for corporate division, Mr. Mandani has held several positions, including the position of a member of the Board of Directors of Ahli Capital Investment Co. then as Chairman of the Board of Directors from 2010 to 2014, Member of the Board of Directors and Vice Chairman in KIC Financial Brokerage, He has attended several professional courses in the fields of banking from distinguished institutions and universities, most notably Harvard University. He moved to Warba Bank in 2014 and currently holds the position of Acting Chief Corporate Banking Officer.

**Abdullah Jassim Hamada**- Acting Chief Human Resources and General Services Officer

Hamada He holds a Bachelor Degree of Science in Management Information Systems from Kuwait University. He joined the National Project for Leaders of Development Program (Thukhur) in 2012 under the supervision of Johnson College of Business, Cornell University in the United States. He has also obtained certificates from the Executive Directors and Leadership Development Program at the Banking Sector from Harvard Business School and Chicago Booth College. He has 13 years of experience, starting his career in the public sector in 2005. Then he moved to the private sector and worked in human resources for EQUATE Petrochemical Company (2006-2010), Warba Bank during the foundation stage (2011 -2013), then he moved to Al-Ghanim Industries Company (2013-2015), to get back in 2015 to Warba Bank where he currently holds the position of Acting Chief Human Resources and General Services Officer.

## COMPENSATION POLICY (SALARY AND REMUNERATION)

Warba Bank has a compensation policy that provides fair, equitable and competitive compensation for its employees; it is based on encouraging and rewarding high performance; attracting individuals of the right caliber qualifications and experience to work for the Bank. The Policy also ensures flexibility to adapt to market changes and imperatives in a structured and standardized manner.

The compensation package (salaries and remunerations) includes a number of items given to the employees. Such items are divided into two categories:

- Basic salary and allowances paid monthly to the employee and determined according to the job evaluation rating and the Bank's grading system.
- Other benefits and rewards like, travel tickets, medical insurance, tuition allowance, end of service benefits as well as the remunerations approved by the Board of Directors in coordination with the Board Nominations and Remunerations Committee and the Board Risk Committee.

The annual compensation package (fixed and variable) is reviewed by the Nominations and Remunerations Committee and approved by the Board of Directors.

- The Nominations and Remunerations Committee held (7) meetings for the year ended 31/12/2018.

### **Disclosures of salaries and remunerations as per CBK Corporate Governance Instructions:**

#### **First: Board Members' Remunerations**

The remunerations paid to the members of the board of directors during 2018 amounted KD 207 Thousand.

#### **Second: Compensations paid to the Bank's highest paid executives:**

The total compensations and remunerations paid to the six key executives who received the highest compensation package for 2018 including the CEO, CFO, CRO, CIA amounted KD 1,440,411 This amount includes basic salaries, allowances, entitlements and end of service benefits

#### **Third: Compensations as per Warba's various categories of employees:**

Total compensations paid to the executive management for 2018 (CEO and his deputies and / or other senior executives whose appointment is subject to the approval of the regulatory and supervisory bodies, i.e., 15 individuals amounted KD 2,339,855 inclusive of basic salaries, allowances, entitlements and end of service benefits.

Total compensations paid to the Financial Control and Risk employees, i.e., 12 employees, amounted to KD 1,420,419 inclusive of basic salaries, allowances, entitlements and end of service benefits.

Total compensations paid to the risk takers employees i.e., 16 employees, amounted KD 1,873,434 inclusive basic salaries, allowances, entitlements and end of service benefits. This category includes the Top Management, Groups and Departments Heads, with financial authorities who delegate responsibilities to their staff members but still have the ultimate responsibility and accountability for the risks.

## ANTI-MONEY LAUNDERING

As a financial institution, Warba Bank is fully committed to mitigating and controlling threats and risks of Money Laundering and other financial crimes including the Financing of Terrorism. It complies with all laws and regulations issued by the Central Bank of Kuwait (CBK) on Anti-Money Laundering (AML) and Combatting the Financing of Terrorism (CFT). Accordingly, the Bank has amended the relevant policies and procedures in

accordance with AML/CFT Law No. 106 of 2013 and any other subsequent regulatory guidelines, if required, concerning AML/CFT as well as CBK Instructions No. 308 of 2013. This approach ensures full compliance with all legislative and regulatory requirements. Most importantly, dealing with customers in accordance with risk assessment associated with money laundering and financing of terrorism and identification of risk factors associated with customers and banking transactions.

Additionally, the Bank confirms the adoption of the Know-Your-Customer (KYC) and due diligence principles based upon risk assessment throughout the customer's relationship with the Bank. Further, the Bank seeks to comply with the relevant international guidelines and best practices as per FATF recommendations in this regard. In order to combat money laundering and prevent financial crimes, Warba Bank ensures the effectiveness of its human resources and systems in identifying any unusual or suspicious transactions. Accordingly, Warba's staff members receive annual training to be familiarize with the patterns used in AML/CFT transactions. Also staff are given guidance and tools that enable them handle any such cases. It is noteworthy that Warba has set the required systems to mitigate the risks of money laundering and financing of terrorism.

Warba Bank also complies with the requirements of The USA Foreign Account Tax Compliance Act (FATCA), and the ministerial decisions issued in this respect. These efforts included amendments to applicable account opening forms, Know Your Customer forms "KYC" and other procedures for new account opening. A leading global audit firm has been engaged to act as the Bank's consultant for verifying the implementation of the law requirements and reviewing the FATCA report for 2017 to technically verify the report accordance and accuracy. The FATCA report has been successfully uploaded before deadline to the Ministry of Finance website.

Warba Bank has complied with the requirements of the Common Reporting Standards (CRS) signed by the State of Kuwait on 19/08/2016 as promulgated by ministerial resolutions, Warba Bank engaged an audit firm, approved by the Ministry of Finance, to oversee the development of the Banks procedures to ensure that it would comply with the requirements in good time. The Bank's CRS report was submitted through the Ministry of Finance website in August 2018.

## **COMPLIANCE**

In line with the regulatory bodies' instructions in respect of the fundamental principles of compliance, the Bank has given due care for the independency and required staffing, skills and experience of Compliance Department. The Bank has in place comprehensive policies and procedures to ensure full compliance with CBK's instructions and other regulatory authorities. Compliance Department applies best international standards and sound practices to enhance compliance culture across the Bank, improve Compliance control over the banking systems and maintain full compliance with the instructions of the regulatory authorities.

## **CODE OF BUSINESS CONDUCT AND ETHICS**

Warba Bank's practices and activities are governed by the standards of behavioral ethical conduct that apply to all Warba staff members working for the Bank or representing the Bank and serving its interests.

## **DISCLOSURE AND TRANSPARENCY**

In line with instructions from the Central Bank of Kuwait, Capital Markets Authority and Boursa Kuwait Corporate Governance rules and standards stipulate enhancement of accurate and timely disclosure processes on all matters and significant information about the Bank. The Bank has set an ad-hoc Disclosure and Transparency Unit under Compliance Department dedicated for disclosure of the Bank's significant information to Boursa Kuwait and CMA. The Bank's website constitutes a significant part of the disclosure channels, plus the annual reports, financial statements and notes, information related to the Bank's activities such as the main products and services, and regular press releases published by media.

## ADEQUACY OF INTERNAL CONTROLS

Warba Bank's Board of Directors is responsible for reviewing and approving the effectiveness of the Bank's system of internal control, for the purpose of ensuring effective and efficient operations, quality of internal and external reporting, internal control, and compliance with laws and regulations. Senior Management is responsible for establishing and maintaining the system of internal control designed to manage the risk of failure to achieve the Bank's objectives. The system of internal control can only provide reasonable but not absolute assurance against the risk of gross loss.

The Board, through its Committees, reviews regularly the effectiveness of the internal control systems as assessed by the various internal control functions. The Board also ensures that these functions are properly positioned, staffed and resourced and are carrying out their responsibilities independently and effectively. The Board also reviews the management letters issued by the external financial auditors and reviews the report on Accounting and other Records and Internal Control System issued by the external auditor (ICR report).

The Board believes that the internal control systems as of 31 December 2018 are adequate to provide reasonable assurance regarding the achievement Warba Bank's objectives.

Based on CBK's instructions, the Bank has engaged an independent external auditor in 2018 for conducting independent review report on the Bank's internal controls for 2017. The report was presented to the Board Audit Committee and the Board of Directors in the Meeting held on 21/6/2018. The report, submitted to the CBK on 21/6/2017, indicated that the Bank has set internal controls and processes as per the regulatory requirements. The issues raised in the report have no material impact on the fair presentation of the Bank's financial statements for 2017. The actions taken by the Bank, for remedy of the issues raised in the report including issues from previous years, were satisfactory. The External Auditor's Report sent to CBK on 02/01/2019 concerning follow-up of the findings in the internal control review report for the year ended 31/12/2017, has concluded that all findings in the said report had been resolved.

## CORPORATE CAPABILITIES

Warba Bank is constantly keen on contributing effectively to the future development plans of the State of Kuwait through attracting high levels of competencies and leading banking expertise. This comes in line with the Bank's strong belief in the viability of investing in human resources, given the importance of the human factor in realizing successes. Human resources can deliver innovation, brilliant achievements, excellence and clear imprint on the performance of the Islamic banking sector since Warba Bank has provided its human resources with all the means of academic and practical training and qualifications on the Bank's sophisticated systems and various business areas. Bank warba is working with local and international companies to design specific and intensive development plans as part of our succession planning program for High Potential Kuwaiti Talents using world class measures to ensure the best preparation on a Managerial and Technical levels to assist them qualify to handle managerial and executive positions.

This year, the executive management began prepping cadres and give greater opportunities for career development, whilst prioritizing job vacancies for more experienced and more capable staff to fill new vacancies. Also, this year, the Bank exceeded the prescribed Kuwaitization percentage, reaching 72.3%. As well the percentage reached more than 91.7 % of Kuwaiti nationals in some Groups.

The Board of Directors  
Warba Bank  
P.O.Box 1220, Safat 13013  
State of Kuwait

20 June 2017

Dear Sirs,

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

In accordance with our letter of engagement dated 15 March 2018, we have examined the accounting and other records and internal control systems of WARBA Bank K.S.C.P. ('The Bank') for the year ended 31 December 2017. We covered the following departments and activities of the bank:

- Financial Control and Planning Group
- Investment Banking Group
- Compliance Department
- Corporate Banking Group
- Internal Sharia'h Audit Department
- Strategic Planning Group
- Information Technology Group
- Corporate Governance
- Financial Securities Activities
- Fraud and Embezzlement
- Operations Group
- Human Resources and General Services Group
- Treasury Group
- Risk Management Group
- AML Unit
- Retail Banking Group
- Customers Complaints Unit
- Legal Department
- Internal Audit Group
- Confidentiality of Customer Information
- Entity Wide Control Environment

Our examination has been carried out as per the requirements of the Central Bank of Kuwait (CBK) circular dated 17 January 2018 considering the requirements contained in the Manual of General Directives issued by the CBK of 15 June 2003, Pillar IV of corporate governance instructions in respect of risk management and internal controls issued by the CBK on 20 June 2012, instructions dated 23 July 2013 concerning anti money laundering and combating financing of terrorism and the related instructions, instructions dated 9 February 2012 regarding confidentiality of customer's information and financial securities activities of the Bank and activities and instructions regarding internal control with respect to prevention and reporting of fraud and embezzlement cases.

As members of the Board of Directors of the Bank, you are responsible for establishing and maintaining adequate accounting and other records and internal control systems, taking into consideration the expected benefits and relative costs of establishing such systems and complying with the requirements contained in the CBK instructions mentioned in the above paragraph. The objectives of this report is to provide reasonable, but not absolute, assurance on the extent to which the adopted procedures and systems are adequate to safeguard the assets

against loss from unauthorized use or disposition; that key risks are properly monitored and evaluated; that transactions are executed in accordance with established authorization procedures and are recorded properly; and to enable you to conduct the business in a prudent manner.

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

With the exception of the matters set out in the accompanying report, and having regard to the nature and volumes of the bank's operations, during the year ended 31 December 2017, and the materiality and risk rating of our findings, we report that:

- A. The accounting and other records and internal control systems of the bank were established and maintained in accordance with the requirements of the Manual of General Directives issued by the CBK on 15 June 2003 and letter issued by CBK on 17 January 2018,
- B. The findings raised in the examination and assessment of the internal controls do not have a material impact on the fair presentation of the financial statements of the bank for the year ended 31 December 2017, and
- C. The actions taken by the bank to address the findings referred in the report are satisfactory.

Yours faithfully,



**Faisal Saqer AlSaqer**  
License NO. 172 (A)  
Protiviti Member Firm Kuwait WLL



# Capital Adequacy Disclosures

- 52 › First: Bank Structure
- 52 › Second: Capital Structure
- 52 › Third: Capital Adequacy Ratios
- 59 › Fourth: Risk weighted assets
- 61 › Fifth: Risk Management
- 63 › Sixth: Investment Accounts

## **PUBLIC DISCLOSURE REQUIREMENTS (BASEL III)**

The qualitative and quantitative public disclosures under this section have been prepared in accordance with the Central Bank of Kuwait (CBK) Rules and Regulations concerning Capital Adequacy Standard (Basel III) for Islamic Banks licensed in the State of Kuwait, vide circular reference 2/RB/RBA/336/2014 dated June 24, 2014, Leverage Ratio Standard circular reference 2/RBA/343/2014 dated October 21, 2014, and Liquidity Coverage Ratio Standard circular reference 2/RBA/346/2014 dated December 23, 2014.

Disclosures related to Capital Adequacy Standards under Basel III are based on calculating the minimum capital required to cover credit and market risks using the Standardized Approach, and the minimum capital required to cover operational risk using the Basic Indicator Approach.

### **FIRST: BANK STRUCTURE**

Warba Bank K.S.C.P. (the "Bank") is engaged in providing Islamic banking, finance and investment services that comply with Islamic Shari'a to various customer and industry segments.

### **SECOND: CAPITAL STRUCTURE**

The Bank's regulatory capital comprises:

- Equity Tier 1 (CET1) which demonstrates the Bank's underlying strength and includes share capital, reserves, and share premium according to applicable rules and regulations.
- Additional Tier 1 (AT1) which comprises of the Tier 1 Perpetual Sukuk issued by the bank.
- Tier 2 Supplementary Capital which comprises of the allowed portion of general provisions (1.25% of the risk weighted assets).

The Bank's capital does not include either structured instruments or complex equity instruments.

As at 31 December 2018, Tier 1 "Core Capital" amounted to KD 270,928 thousand (2017: KD 175,456 thousand), and Tier 2 "Supplementary Capital" amounted to KD 13,803 thousand (2017: KD 9,672 thousand) as detailed below:

Capital Structure	2018 (KD'000)	2017 (KD'000)
<b>Tier (1) Capital</b>		
<b>A Common Equity Tier 1 (CET1)</b>		
1. Directly issued qualifying common share capital plus related stock surplus	190,000	100,000
2. Eligible Minority Interest in Consolidated Subsidiaries	-	-
3. Retained earnings (loss)	7,779	(944)
4. Other reserves	(3,214)	37
<b>Total (A) CET1 before deductions</b>	<b>194,565</b>	<b>99,093</b>
Deductions from CET1		
1. Treasury shares	-	-
2. Dividends (Declared but not incurred)	-	-
3. Goodwill	-	-
4. Other deductions	-	-
<b>Total (A) CET1 after deductions</b>	<b>194,565</b>	<b>99,093</b>
<b>B Additional Tier 1 (AT1)</b>	<b>76,363</b>	<b>76,363</b>
Deduction from AT1	-	-
<b>Total (B) AT1 after deductions</b>	<b>76,363</b>	<b>76,363</b>
<b>Total (A+B) Tier 1 after Deductions</b>	<b>270,928</b>	<b>175,456</b>
<b>Tier (2) Supplementary Capital</b>		
1- Capital Eligible as T2	-	-
2- General provisions	13,803	9,672
<b>Total Tier (2) Supplementary Capital before deductions</b>	<b>13,803</b>	<b>9,672</b>
Deduction from Tier (2) Supplementary Capital	-	-
<b>Total Tier (2) Supplementary Capital after deductions</b>	<b>13,803</b>	<b>9,672</b>
<b>Total Available Capital (Tier 1 &amp; Tier 2) before adjustments</b>	<b>284,731</b>	<b>185,128</b>
<b>Other Adjustments</b>	<b>-</b>	<b>-</b>
<b>Total Available Capital (Tier 1 &amp; Tier 2) After adjustments</b>	<b>284,731</b>	<b>185,128</b>

The Extraordinary General Meeting of the shareholders of the Bank approved in its meeting held on 31 October 2018 to increase the Bank's authorized, issued and paid up capital by 50% through issuing 500,000,000 shares under rights issue to eligible Shareholders. The offer price was 180 fils per Share (par value of 100 fils and share premium of 80 fils). Accordingly, the authorized, issued and fully paid up share capital as at 31 December 2018 consists of 1,500,000 shares (31 December 2017: 1,000,000 shares) at a par value of 100 fils per share.

As at 31 December 2018, Profit Equalization Reserve and Investment Risk Reserve amounted to KD Nil (2017: KD Nil).

## 1. Common Disclosures Template

The common disclosure template demonstrated below is presented with the objective of disclosing a detailed breakdown of the Bank's regulatory capital in a consistent and clear format, thus enhancing the consistency and comparability of the disclosed elements of capital between banks and across jurisdictions.

Item	2018 (KD'000)	2017 (KD'000)
<b>Common Equity Tier 1 capital: instruments and reserves</b>		
1	190,000	100,000
2	7,779	(944)
3	(3,214)	37
4	-	-
5	-	-
6	194,565	99,093
<b>Common Equity Tier 1 capital: regulatory adjustments</b>		
7	-	-
8	-	-
9	-	-
10	-	-
11	-	-
12	-	-
13	-	-
14	-	-
15	-	-
16	-	-
17	-	-
18	-	-
19	-	-
20	-	-
21	-	-
22	-	-
23	-	-
24	-	-
25	-	-
26	-	-
27	-	-

Item	2018 (KD'000)	2017 (KD'000)
28 Total regulatory adjustments to Common Equity Tier 1	-	-
29 Common Equity Tier 1 after the regulatory adjustments	194,565	99,093
<b>Additional Tier 1 capital: instruments</b>		
30 Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	76,363	76,363
31 of which: classified as equity under applicable accounting standards	76,363	76,363
of which: classified as liabilities under applicable accounting standards	-	-
33 Directly issued capital instruments subject to phase out from Additional Tier 1	-	-
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)	-	-
35 of which: instruments issued by subsidiaries subject to phase-out	-	-
36 Additional Tier 1 capital before regulatory adjustments	76,363	76,363
<b>Additional Tier 1 capital: regulatory adjustments</b>		
37 Investments in own Additional Tier 1 instruments	-	-
38 Reciprocal cross-holdings in Additional Tier 1 instruments	-	-
39 Investments in the capital of banking, financial and 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)	-	-
40 Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	-
41 National specific regulatory adjustments	-	-
42 Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	-
43 Total regulatory adjustments to Additional Tier 1 capital	-	-
44 Additional Tier 1 capital (AT1)	76,363	76,363
45 Tier 1 capital (T1 = CET1 + AT1)	270,928	175,456
<b>Tier 2 capital: instruments and provisions</b>		
46 Directly issued qualifying Tier 2 instruments plus related stock surplus	-	-
47 Directly issued capital instruments subject to phase-out from Tier 2	-	-
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)	-	-
49 of which: instruments issued by subsidiaries subject to phase-out	-	-
50 General provisions included in Tier 2 capital	13,803	9,672
51 Tier 2 capital before regulatory adjustments	13,803	9,672
<b>Tier 2 capital: regulatory adjustments</b>		
52 Investments in own Tier 2 instruments	-	-
53 Reciprocal cross-holdings in Tier 2 instruments	-	-
54 Investments in the capital of banking, financial and 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 the 10% threshold)	-	-

Item	2018 (KD'000)	2017 (KD'000)
55	-	-
56	-	-
57	-	-
58	13,803	9,672
59	284,731	185,128
60	1,173,468	824,081
<b>Capital ratios and buffers</b>		
61	16.58%	12.02%
62	23.09%	21.29%
63	24.26%	22.46%
64	9.50%	9.50%
65	2.50%	2.50%
66	0.00%	0.00%
67	0.00%	0.00%
68	8.76%	4.20%
<b>National minimal</b>		
69	111,479	78,288
70	129,081	90,649
71	152,551	107,131
<b>Amounts below the thresholds for deduction (before risk weighting)</b>		
72	-	-
73	-	-
74	-	-
75	-	-
<b>Applicable caps on the inclusion of provisions in Tier 2</b>		
76	22,041	15,437
77	13,803	9,672
78	-	-
79	-	-

## 2. Reconciliation Requirements

The Group has adopted a three-step approach for reconciliation of balance sheet items and the regulatory capital components as detailed in the instructions are as follows:

Step 1 and 2 of the reconciliation requirements:

### 31 December 2018

Step 1 and 2 of the reconciliation requirements	Balance sheet as in published financial statements (KD'000)	Under regulatory scope of consolidation (KD'000)	Reference
<b>Assets</b>			
Cash and balances with banks	19,738	19,738	
Placements with banks and CBK	256,486	256,486	
Financing receivables	1,606,542	1,606,542	
of which maximum general provisions (netted above) capped for Tier 2 inclusion	13,803	13,803	a
Financial assets at fair value through profit or loss	41,500	41,500	
Financial assets at fair value through other comprehensive income	148,585	148,585	
Investments in joint ventures	52,498	52,498	
Investment properties	22,867	22,867	
Others assets	26,495	26,495	
Property and equipment	18,358	18,358	
<b>Total Assets</b>	<b>2,193,069</b>	<b>2,193,069</b>	
<b>Liabilities</b>			
Due to banks and other financial institutions	835,063	835,063	
Depositors accounts	1,053,178	1,053,178	
Other liabilities	33,900	33,900	
<b>Total Liabilities</b>	<b>1,922,141</b>	<b>1,922,141</b>	
<b>Equity</b>			
Share Capital	150,000	150,000	b
Share Premium	40,000	40,000	c
Statutory Reserve	1,353	1,353	d
Retained Earnings	7,779	7,779	
of which retained earnings eligible for (CET1)	7,779	7,779	e
Fair value reserve	(4,646)	(4,646)	f
Forex reserve	79	79	g
<b>Equity attributable to Shareholders of the Bank</b>	<b>194,565</b>	<b>194,565</b>	
Perpetual Tier 1 Sukuk	76,363	76,363	h
<b>Total Equity</b>	<b>270,928</b>	<b>270,928</b>	
<b>Total Liabilities and Equity</b>	<b>2,193,069</b>	<b>2,193,069</b>	

Step 3 of the reconciliation requirements:

No	Step 3 of Reconciliation requirements	Component of regulatory capital reported by bank (KD'000)	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation from Step 2
<b>Common Equity Tier 1 capital: instruments and reserves</b>			
1	Share Capital	150,000	b
2	Share Premium	40,000	c
3	Statutory Reserve	1,353	d
4	Retained Earnings	7,779	e
5	Fair value reserve	(4,646)	f
6	Forex Reserve	79	g
7	<b>Common Equity Tier 1 capital (CET1)</b>	<b>194,565</b>	
<b>Additional Tier 1 capital: Instruments</b>			
8	Perpetual Tier 1 Sukuk	76,363	h
9	<b>Additional Tier 1 capital</b>	<b>76,363</b>	
10	<b>Tier 1 Capital (Tier 1 = Common Tier 1 capital + Additional Tier 1 capital)</b>	<b>270,928</b>	
<b>Tier 2 Capital : Instruments and provisions</b>			
11	Tier 2 Instruments		
12	General provisions included in Tier 2 capital	13,803	a
13	<b>Tier 2 Capital</b>	<b>13,803</b>	
14	<b>Total Capital (Total capital = Tier 1 + Tier 2)</b>	<b>284,731</b>	

### THIRD: CAPITAL ADEQUACY RATIOS

The Bank actively manages its capital with the objective of maintaining adequate levels in order to cover all risks inherent in the business. The capital base is assessed to support the current and future growth of the business and the capital allocation is determined on the basis of financing and investments growth expectations for each business line.

The Bank is currently operating well above the minimum regulatory capital ratios, with ability to cover any eventuality and intervene at an early stage in situation of any stress. The business growth forecast is based on available capital, as allocated for different business lines to ensure that the Bank's internal capital targets are consistent with the approved Risk Appetite of the Bank to maximize shareholders' value on risk-adjusted basis.

#### 1. Capital Adequacy Ratios are as follows:

##### 2018

No.	Ratio Description	Total Required Capital (%)	Available Capital (%)
1.	Total Capital Adequacy Ratio	13.00%	24.26%
2.	Tier 1 Capital Adequacy Ratio	11.00%	23.09%
3.	CET1 Capital Adequacy Ratio	9.50%	16.58%

##### 2017

No.	Ratio Description	Total Required Capital (%)	Available Capital (%)
1.	Total Capital Adequacy Ratio	13.00%	22.46%
2.	Tier 1 Capital Adequacy Ratio	11.00%	21.29%
3.	CET1 Capital Adequacy Ratio	9.50%	12.02%

The Bank ensures the fulfillment of Central Bank of Kuwait requirements in relation to capital adequacy.

## 2. Financial Leverage Ratio:

The below table depicts information regarding the calculation of the Financial Leverage Ratio, as per the applicable CBK regulations:

Item	2018 KD'000	2017 KD'000
<b>No. On-balance sheet exposures</b>		
1. On-balance sheet items (excluding Sharia compliant hedging contracts, but including collaterals)	2,214,502	1,787,966
2. (Asset amounts deducted in determining Basel III Tier 1 capital)		-
<b>Total on-balance sheet exposures (excluding Sharia compliant hedging contracts) (sum of lines 1 and 2)</b>	<b>2,214,502</b>	<b>1,787,966</b>
<b>Exposures to Sharia compliant hedging contracts</b>		
4. Replacement cost associated with all Sharia compliant hedging contracts (i.e. net of eligible cash variation margin)	664	-
5. Add-on amounts for potential future exposures "PFE" associated with all Sharia compliant hedging contracts	244	-
6. Gross-up for the collateral of Sharia compliant hedging contracts provided where deducted from the balance sheet assets pursuant to the bank's accounting policy.	-	-
7. (Deductions of receivables assets for cash variation margin provided in with all Sharia compliant hedging contracts)	-	-
8. (Bank's exposures to exempted Central counter parties "CCP")	-	-
9. Total exposures of Sharia compliant hedging contracts (sum of lines 4 to 8)	908	-
<b>Other off-balance sheet exposures</b>		
10. Off-balance sheet exposure (before any adjustment for credit conversion factors)	120,719	102,653
11. (Adjustments for conversion to credit equivalent amounts)	(70,321)	(63,262)
12. <b>Off-balance sheet items (sum of lines 10 and 11)</b>	<b>50,398</b>	<b>39,391</b>
<b>Capital and total exposures</b>		
13. Tier 1 capital	270,928	175,456
14. <b>Total exposures (sum of lines 3, 9 and 12)</b>	<b>2,265,808</b>	<b>1,827,357</b>
<b>Leverage ratio</b>		
15. <b>leverage ratio (Tier 1 Capital (13)/total exposures (14))</b>	<b>11.96%</b>	<b>9.60%</b>

As stated above, the Bank's leverage ratio for the present period is 11.96% compared to 9.60% in the previous year. The increase in the leverage ratio is mainly ascribed to the following:

Capital increase within shareholders' equity which was partially offset by increase in both on-balance sheet and off-balance sheet exposures compared to the previous period. This increase in on-balance sheet and off-balance sheet exposures was due to the increase in the Bank's assets, and letters of guarantee issued for the customers.

Summary comparison of accounting assets versus leverage ratio exposure measure:

Item	2018 KD'000	2017 KD'000
<b>No. On-balance sheet exposures</b>		
1. Total assets as per published financial statements	2,193,069	1,773,042
2. Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	-	-
3. Adjustment for fiduciary assets recognized on the balance sheet pursuant to the bank accounting policy but excluded from the gross leverage ratio exposure measure.	-	-
4. Exposures to Sharia compliant hedging contracts	908	-
5. off-balance sheet exposures (i.e. equivalent credit amounts)	50,398	39,391
6. Other exposures	21,433	14,924
7. Total exposures in calculation of leverage ratio (sum of the above items).	2,265,808	1,827,357

## FOURTH: RISK WEIGHTED ASSETS

### 1. Credit risk

The minimum required capital for credit risk exposures as at 31 December 2018 was KD 142,484 thousand (31 December 2017: KD 99,845 thousand) as detailed below:

#### 2018

(KD'000)

SN	Description of Credit Risk Exposures	Total Exposures	Net Exposures	Risk-Weighted Assets	Required Capital
1	Cash item	3,766	3,766	-	-
2	Claims on sovereigns	207,522	207,522	5,133	667
3	Claims on international organizations	-	-	-	-
4	Claims on public sector entities	47,481	47,481	5,615	730
5	Claims on multilateral development banks	8,087	8,087	-	-
6	Claims on banks	251,621	251,621	55,400	7,202
7	Claims on corporates	1,229,770	1,050,436	659,355	85,716
8	Regulatory retail exposure	330,841	326,542	201,596	26,207
9	Qualifying residential housing financing facilities	-	-	-	-
10	Past due exposures	13,658	11,694	5,994	779
11	Goods and commodities positions	3,122	3,122	1,928	251
12	Real estate investments	75,365	75,365	93,076	12,100
13	Investment and financing with customers	5,856	5,856	5,425	705
14	Sukuk and taskeek exposures	-	-	-	-
15	Claims on central counterparties.	-	-	-	-
16	Other exposures	88,719	88,719	62,508	8,127
Total		2,265,808	2,080,211	1,096,030	142,484

#### 2017

(KD'000)

SN	Description of Credit Risk Exposures	Total Exposures	Net Exposures	Risk-Weighted Assets	Required Capital
1	Cash item	1,701	1,701	-	-
2	Claims on sovereigns	173,584	173,584	3,645	474
3	Claims on international organizations	-	-	-	-
4	Claims on public sector entities	37,950	37,950	4,813	626
5	Claims on multilateral development banks	8,136	8,136	-	-
6	Claims on banks	224,344	224,344	41,115	5,345
7	Claims on corporates	987,753	798,302	462,975	60,187
8	Regulatory retail exposure	261,363	256,860	146,327	19,023
9	Qualifying residential housing financing facilities	-	-	-	-
10	Past due exposures	13,196	11,041	5,371	698
11	Goods and commodities positions	5,387	5,387	3,231	420
12	Real estate investments	54,767	54,767	62,416	8,114
13	Investment and financing with customers	9,439	6,199	5,256	683
14	Sukuk and taskeek exposures	-	-	-	-
15	Claims on central counterparties.	-	-	-	-
16	Other exposures	49,737	49,737	32,881	4,275
Total		1,827,357	1,628,008	768,030	99,845

The minimum required capital for financing receivable as at 31 December 2018 was KD 110,070 thousand (31 December 2017: KD 75,915 thousand) as detailed below:

## 2018

(KD'000)

SN	Description of Credit Risk Exposures	Total Exposures	Net Exposures	Risk-Weighted Assets	Required Capital
1	Claims on sovereigns	45,629	45,629	-	-
2	Claims on public sector institutions	35,853	35,853	-	-
3	Claims on banks	58,053	58,053	27,810	3,615
4	Claims on corporates	1,137,845	958,685	602,173	78,282
5	Regulatory retail exposure	330,841	326,542	205,108	26,664
6	Qualifying residential housing financing facilities	-	-	-	-
7	Past due exposures	13,630	11,698	6,095	792
8	Investment and financing with customers	5,856	5,856	5,518	717
	Total	1,627,707	1,442,316	846,704	110,070

2017

(KD'000)

SN	Description of Credit Risk Exposures	Total Exposures	Net Exposures	Risk-Weighted Assets	Required Capital
1	Claims on sovereigns	25,999	25,999	-	-
2	Claims on public sector institutions	25,046	25,046	-	-
3	Claims on banks	43,178	43,178	13,114	1,705
4	Claims on corporates	900,025	710,682	411,327	53,473
5	Regulatory retail exposure	261,363	256,860	148,664	19,326
6	Qualifying residential housing financing facilities	-	-	-	-
7	Past due exposures	13,196	11,041	5,470	711
8	Investment and financing with customers	9,439	6,199	5,383	700
	Total	1,278,246	1,079,005	583,958	75,915

## 2. Market Risk

Market Risk-weighted exposure during the financial year 2018 amounted to KD 3,163 thousand (31 December 2017: KD 3,738 thousand), based on the standardized approach. The minimum required capital for market risk exposures amounts to KD 411 thousand (31 December 2017: KD 486 thousand).

## 3. Operational Risk

Operational Risk-weighted exposures calculated during the year 2018 amounted to KD 74,275 thousand (31 December 2017: KD 52,313 thousand) as per the Basic Indicator Approach. The minimum required capital for operational risk exposures amounts to KD 9,656 thousand (31 December 2017: KD 6,801 thousand).

## FIFTH: RISK MANAGEMENT

Risk is inherent in all activities of a Bank and is managed through a process of ongoing identification, measurement, mitigation and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's financial health and continuing profitability. The Bank's business generates exposure to the following broad risk types from its financial transactions, use of financial instruments and its operations:

- Credit risk
- Market risk
- Liquidity Risk
- Operational risk

In addition, there are other risk areas that need to be monitored and controlled. The following presents information about the Bank's exposure to each of the risks, the Bank's objectives, framework of policies, models and quantification techniques, and processes for identifying, measuring, mitigating and managing risks, and the management of Bank's capital.

### 1. Risk Management Structure

The Board of Directors (the 'Board') has overall responsibility for the establishment and oversight of Bank's Risk Management function. The Board has established a Board Risk Committee (the 'BRC') comprising of members from the Board, to set the framework and monitor the Bank's Risks and Control-related requirements.

For specific types of risk such as credit, market and liquidity risks, the Board has further set up a Board Credit and Investment Committee ("the BCIC"). At the management-level, the following committees are setup to assist the Board in fulfilling its responsibilities: the Executive Credit and Investment Committee (the 'ECIC'), Assets and Liabilities Management Committee (the 'ALCO'), and the Provisioning Committee.

An independent Risk Management Group (the 'RMG') headed by the Chief Risk Officer (the 'CRO') reports to the BRC, responsible for Enterprise-wide Risks to assist the Board and BRC in carrying out the risk oversight responsibility.

### 2. Risk Management Framework

The Board Risk Committee (the 'BRC') sets the framework and monitors the Risks and Control functions of the Bank.

The Board has also established a Board Audit Committee (the 'BAC'), as required by Central Bank of Kuwait (the 'CBK'), which amongst other functions, is also required to monitor adherence with the Bank's Risk Management principles, policies and procedures, and for reviewing the adequacy of the Risk Management Framework.

The Executive Credit and Investment Committee (the 'ECIC') is the executive management level decision making body which is empowered to consider all financing and investment proposals for approval within its delegated authorities and/or recommendations to the Board Credit and Investment Committee (the 'BCIC') for final approval.

The Provisioning Committee is responsible for reviewing the entire financing and investment portfolio of the Bank on a periodic basis, to assess against actual delinquency or potential impairment and recommend the required level of provisioning in accordance with the Central Bank of Kuwait (CBK) regulations and financial/accounting standards.

The Assets and Liabilities Management Committee (the 'ALCO') is responsible for all matters related to the Bank's Balance Sheet management including all assets and liabilities, asset allocation, liability structure, funding diversification and cost-effectiveness, asset and liability maturity profile, net return margin, as well as all other issues related to capital adequacy with respect to market and liquidity risk management.

### **3. Risk Appetite**

The Bank's risk appetite defines the maximum limit of risk that the Bank is willing to accept in relevant business categories to achieve an optimal balance of risk and return which will enable the achievement of its strategic objectives and is approved at the Board level. Any risk which is not in line with the Bank's stated risk appetite must be mitigated as a matter of priority to be within acceptable levels. The risk appetite is reviewed and recommended by the BRC to the Board of Directors for approval and periodic updates. This ensures the risk appetite statements are consistent with the Bank's strategy and business environment. Through the risk appetite statements, the Board communicates to management the acceptable level of risk for the Bank, determined in a manner which meets the objectives of shareholders, depositors and regulators. RMG aims to identify early warning signs of potential breaches to risk appetite limits; and is responsible for notifying the executive management of action required to mitigate or avoid such risks. The RMG is also responsible for escalating the matter to the BRC and the Board.

### **4. Risk Management Systems**

In order to manage risks in a holistic manner and to measure risks on a consolidated basis, the Bank has a formal Risk Governance Framework, which provides detailed guidelines for a sound framework for Enterprise-wide Risk Management. The objectives of risk management are supported by various risk policies that are reviewed and updated regularly. The risk policies, in general, cater to detailed planning for various risks based on business strategies, past performance, future expectations, economic conditions, and internal as well as external events. The policies also require comprehensive analysis of a set of pre-determined parameters prior to introduction of new products or instruments. The policies have put in place internal limits (nominal as well as risk based) for continuous monitoring and ensuring that risks are maintained within the Bank's Risk Appetite. Periodical reporting of risks to various authorities including the ALCO, ECIC, BCIC and the BRC ensures that the Board and the Executive management are continuously kept aware of positions thereby enabling informed decision-making.

The Risk Management policies are established to identify, quantify, control, mitigate, and analyze the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and ensure adherence to the risk appetite limits. Risk Management policies and systems are subject to review regularly, on an ongoing basis, to reflect changes in economic environment, market conditions, products and services offered by the Bank.

### **5. Categories of Risks**

The following are the main risks the Bank is exposed to:

#### **5.1 Credit Risks**

Credit risk is the risk of financial loss to the Bank if any counterparty to a financial obligation or instrument fails to or delays in meeting its contractual obligations, and arises principally from the Bank's receivables from Islamic financing activities, Ijara and Investments, etc. For risk management control purposes, the Bank considers and consolidates all elements of credit risk exposure such as individual obligor default risk, country risk and sector risk in one measure about riskiness of an exposure, based on models and inter-play of matrices.

#### **Credit Risk Framework**

The Bank's Board has approved Financing and Investment Policies for various business groups and investment asset types. The Board has also approved the Executive Credit and Investment Committee (the 'ECIC') Charter which is empowered for initial screening of proposals and approval within its delegated authorities. The Board has also constituted the Board Credit and Investment Committee (the 'BCIC') which by virtue of its Charter is the next level of authority which provides guiding principles and approve the various financing and investment proposals on behalf of the Board of the Bank. Risk Management Group provides independent opinion and assessment of risk for every financing and investment that is proposed and presented to the approving authorities for decision making.

In addition, the Bank endeavors to manage the credit exposure by obtaining security where appropriate and limiting the tenor of exposure or structures that are beneficial to the overall risk profile of the Bank's credit risk exposure.

### Net Credit Exposures (Rated or Unrated)

#### 2018

(KD'000)

SN	Description of Credit Risk Exposures	Net Credit Exposure	Rated Exposures	Unrated Exposures
1	Cash item	3,766	-	3,766
2	Claims on sovereigns	207,522	203,828	3,694
3	Claims on international organizations	-	-	-
4	Claims on public sector entities	47,481	2,005	45,476
5	Claims on multilateral development banks	8,087	8,087	-
6	Claims on banks	251,621	199,208	52,413
7	Claims on corporates	1,229,798	28,691	1,201,107
8	Regulatory retail exposure	330,841	-	330,841
9	Qualifying residential housing financing facilities	-	-	-
10	Past due exposures	13,630	-	13,630
11	Goods and commodities positions	3,122	-	3,122
12	Real estate investments	75,365	-	75,365
13	Investment and financing with customers	5,856	-	5,856
14	Sukuk and taskeek exposures	-	-	-
15	Claims on central counterparties.	-	-	-
16	Other exposures	88,719	-	88,719
	Total	2,265,808	441,819	1,823,989

#### 2017

(KD'000)

SN	Description of Credit Risk Exposures	Net Credit Exposure	Rated Exposures	Unrated Exposures
1	Cash item	1,701	-	1,701
2	Claims on sovereigns	173,584	146,680	26,904
3	Claims on international organizations	-	-	-
4	Claims on public sector entities	37,950	2,000	35,950
5	Claims on multilateral development banks	8,136	8,136	-
6	Claims on banks	224,344	212,200	12,144
7	Claims on corporates	987,753	29,770	957,983
8	Regulatory retail exposure	261,363	-	261,363
9	Qualifying residential housing financing facilities	-	-	-
10	Past due exposures	13,196	-	13,196
11	Goods and commodities positions	5,387	-	5,387
12	Real estate investments	54,767	-	54,767
13	Investment and financing with customers	9,439	-	9,439
14	Sukuk and taskeek exposures	-	-	-
15	Claims on central counterparties.	-	-	-
16	Other exposures	49,737	-	49,737
	Total	1,827,357	398,786	1,428,571

### Total Credit Risk exposures (Self-Financed or Financed from Investment Accounts):

## 2018

(KD'000)

SN	Description of Credit Risk Exposures	Credit Risk Exposures	Self Financed	Financed From Investment Accounts
1	Cash item	3,766	3,766	-
2	Claims on sovereigns	207,522	55,849	151,673
3	Claims on international organizations	-	-	-
4	Claims on public sector entities	47,481	11,159	36,322
5	Claims on multilateral development banks	8,087	1,900	6,187
6	Claims on banks	251,621	67,200	184,421
7	Claims on corporates	1,229,770	325,302	904,468
8	Regulatory retail exposure	330,841	77,750	253,091
9	Qualifying residential housing financing facilities	-	-	-
10	Past due exposures	13,658	3,231	10,427
11	Goods and commodities positions	3,122	734	2,388
12	Real estate investments	75,365	17,711	57,654
13	Investment and financing with customers	5,856	1,376	4,480
14	Sukuk and taskeek exposures	-	-	-
15	Claims on central counterparties.	-	-	-
16	Other exposures	88,719	52,774	35,945
	Total	2,265,808	618,752	1,647,056

## 2017

(KD'000)

SN	Description of Credit Risk Exposures	Credit Risk Exposures	Self Financed	Financed From Investment Accounts
1	Cash item	1,701	1,701	-
2	Claims on sovereigns	173,584	29,582	144,002
3	Claims on international organizations	-	-	-
4	Claims on public sector entities	37,950	5,300	32,650
5	Claims on multilateral development banks	8,136	1,136	7,000
6	Claims on banks	224,344	38,231	186,113
7	Claims on corporates	987,753	169,501	818,252
8	Regulatory retail exposure	261,363	36,503	224,860
9	Qualifying residential housing financing facilities	-	-	-
10	Past due exposures	13,196	1,843	11,353
11	Goods and commodities positions	5,387	752	4,635
12	Real estate investments	54,767	7,649	47,118
13	Investment and financing with customers	9,439	1,318	8,121
14	Sukuk and taskeek exposures	-	-	-
15	Claims on central counterparties.	-	-	-
16	Other exposures	49,737	27,558	22,179
	Total	1,827,357	321,074	1,506,283

**Average exposures (Self-Financed or Financed from Absolute Investment Accounts)  
on a quarterly basis:**

**2018**

(KD'000)

SN	Description of Credit Risk Exposures	Average Credit Risk exposures	Average Self Financed	Average Financed From Investment Accounts
1	Cash item	3,661	3,661	-
2	Claims on sovereigns	218,511	55,742	162,769
3	Claims on international organizations	-	-	-
4	Claims on public sector entities	43,646	6,754	36,892
5	Claims on multilateral development banks	8,038	1,224	6,814
6	Claims on banks	205,381	42,121	163,260
7	Claims on corporates	1,121,229	213,722	907,507
8	Regulatory retail exposure	299,543	46,478	253,065
9	Qualifying residential housing financing facilities	-	-	-
10	Past due exposures	13,830	2,388	11,442
11	Goods and commodities positions	2,742	425	2,317
12	Real estate investments	60,133	9,568	50,565
13	Investment and financing with customers	9,856	1,397	8,459
14	Sukuk and taskeek exposures	-	-	-
15	Claims on central counterparties.	-	-	-
16	Other exposures	68,972	37,142	31,830
	<b>Total</b>	<b>2,055,542</b>	<b>420,622</b>	<b>1,634,920</b>

2017

(KD'000)

SN	Description of Credit Risk Exposures	Average Credit Risk exposures	Average Self Financed	Average Financed From Investment Accounts
1	Cash item	2,928	2,928	-
2	Claims on sovereigns	142,204	23,544	118,660
3	Claims on international organizations	-	-	-
4	Claims on public sector entities	47,989	6,820	41,169
5	Claims on multilateral development banks	8,582	1,228	7,354
6	Claims on banks	176,719	30,589	146,130
7	Claims on corporates	698,523	126,215	572,308
8	Regulatory retail exposure	232,930	32,969	199,961
9	Qualifying residential housing financing facilities	-	-	-
10	Past due exposures	5,011	706	4,305
11	Goods and commodities positions	2,197	304	1,893
12	Real estate investments	37,033	5,223	31,810
13	Investment and financing with customers	210,288	29,873	180,415
14	Sukuk and taskeek exposures	-	-	-
15	Claims on central counterparties.	-	-	-
16	Other exposures	47,684	25,543	22,141
	<b>Total</b>	<b>1,612,088</b>	<b>285,942</b>	<b>1,326,146</b>

## Excess Risk Concentrations

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or exposed to similar economic environment that would cause their ability to meet contractual obligations and be similarly impacted by changes in economic, political and/or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Bank's performance to developments affecting similarly connected counterparties.

## Geographical Distributions for Credit Risk Exposure

2018

(KD'000)

SN	Description of Credit Risk Exposures	North					Total
		MENA	America	Europe	Asia	Others	
1	Cash item	3,766	-	-	-	-	3,766
2	Claims on sovereigns	198,357	-	5,194	3,971	-	207,522
3	Claims on international organizations	-	-	-	-	-	-
4	Claims on public sector entities	39,021	-	-	8,460	-	47,481
5	Claims on multilateral development banks	8,087	-	-	-	-	8,087
6	Claims on banks	178,975	1,318	65,587	5,741	-	251,621
7	Claims on corporates	1,131,135	19,975	52,772	22,870	3,046	1,229,798
8	Regulatory retail exposure	330,841	-	-	-	-	330,841
9	Qualifying residential housing financing facilities	-	-	-	-	-	-
10	Past due exposures	13,630	-	-	-	-	13,630
11	Goods and commodities positions	3,122	-	-	-	-	3,122
12	Real estate investments	12,633	52,498	10,234	-	-	75,365
13	Investment and financing with customers	5,856	-	-	-	-	5,856
14	Sukuk and taskeek exposures	-	-	-	-	-	-
15	Claims on central counterparties.	-	-	-	-	-	-
16	Other exposures	70,499	11,726	6,494	-	-	88,719
	Total	1,995,922	85,517	140,281	41,042	3,046	2,265,808

2017

(KD'000)

SN	Description of Credit Risk Exposures	North					Total
		MENA	America	Europe	Asia	Others	
1	Cash item	1,701	-	-	-	-	1,701
2	Claims on sovereigns	167,187	-	5,492	905	-	173,584
3	Claims on international organizations	-	-	-	-	-	-
4	Claims on public sector entities	30,619	-	-	7,331	-	37,950
5	Claims on multilateral development banks	8,136	-	-	-	-	8,136
6	Claims on banks	189,348	1,678	27,534	5,784	-	224,344
7	Claims on corporates	924,700	16,286	32,781	11,006	2,980	987,753
8	Regulatory retail exposure	261,363	-	-	-	-	261,363
9	Qualifying residential housing financing facilities	-	-	-	-	-	-
10	Past due exposures	13,196	-	-	-	-	13,196
11	Goods and commodities positions	5,387	-	-	-	-	5,387
12	Real estate investments	14,045	31,102	9,620	-	-	54,767
13	Investment and financing with customers	9,439	-	-	-	-	9,439
14	Sukuk and taskeek exposures	-	-	-	-	-	-
15	Claims on central counterparties.	-	-	-	-	-	-
16	Other exposures	39,105	10,632	-	-	-	49,737
	Total	1,664,226	59,698	75,427	25,026	2,980	1,827,357

**Maturities of total "Credit Risk" exposures****2018**

(KD'000)

SN	Description of Credit Risk Exposures	Up to 3 months	3 to 12 months	Over 1 year	Total
1	Cash item	3,766	-	-	3,766
2	Claims on sovereigns	122,116	35,185	50,221	207,522
3	Claims on international organizations	-	-	-	-
4	Claims on public sector entities	35,853	2,005	9,623	47,481
5	Claims on multilateral development banks	-	-	8,087	8,087
6	Claims on banks	214,558	9,295	27,768	251,621
7	Claims on corporates	756,373	405,960	67,465	1,229,798
8	Regulatory retail exposure	2,034	5,240	323,567	330,841
9	Qualifying residential housing financing facilities	-	-	-	-
10	Past due exposures	13,630	-	-	13,630
11	Goods and commodities positions	-	3,122	-	3,122
12	Real estate investments	-	-	75,365	75,365
13	Investment and financing with customers	3,184	2,672	-	5,856
14	Sukuk and taskeek exposures	-	-	-	-
15	Claims on central counterparties.	-	-	-	-
16	Other exposures	11,808	3,235	73,676	88,719
	<b>Total</b>	<b>1,163,322</b>	<b>466,714</b>	<b>635,772</b>	<b>2,265,808</b>

2017

(KD'000)

SN	Description of Credit Risk Exposures	Up to 3 months	3 to 12 months	Over 1 year	Total
1	Cash item	1,701	-	-	1,701
2	Claims on sovereigns	85,597	42,261	45,726	173,584
3	Claims on international organizations	-	-	-	-
4	Claims on public sector entities	25,046	-	12,904	37,950
5	Claims on multilateral development banks	-	-	8,136	8,136
6	Claims on banks	199,306	2,722	22,316	224,344
7	Claims on corporates	642,395	297,058	48,300	987,753
8	Regulatory retail exposure	1,022	2,486	257,855	261,363
9	Qualifying residential housing financing facilities	-	-	-	-
10	Past due exposures	13,196	-	-	13,196
11	Goods and commodities positions	-	5,387	-	5,387
12	Real estate investments	-	-	54,767	54,767
13	Investment and financing with customers	6,329	3,110	-	9,439
14	Sukuk and taskeek exposures	-	-	-	-
15	Claims on central counterparties.	-	-	-	-
16	Other exposures	7,727	3,954	38,056	49,737
	<b>Total</b>	<b>982,319</b>	<b>356,978</b>	<b>488,060</b>	<b>1,827,357</b>

## Main sectors of total Credit Risk exposures

2018

(KD'000)

SN	Description of Credit Risk Exposures	Manufacturing & Trade	Banks & Financial Institutions	Construction & Real Estate	Government	Others	Total
1	Cash item	-	-	-	-	3,766	3,766
2	Claims on sovereigns	-	-	-	161,893	45,629	207,522
3	Claims on international organizations	-	-	-	-	-	-
4	Claims on public sector entities	25,036	-	-	11,628	10,817	47,481
5	Claims on multilateral development banks	-	8,087	-	-	-	8,087
6	Claims on banks	-	251,621	-	-	-	251,621
7	Claims on corporates	269,352	73,343	701,063	-	186,040	1,229,798
8	Regulatory retail exposure	-	-	-	-	330,841	330,841
9	Qualifying residential housing financing facilities	-	-	-	-	-	-
10	Past due exposures	-	-	-	-	13,630	13,630
11	Goods and commodities position	3,122	-	-	-	-	3,122
12	Real estate investments	-	-	75,365	-	-	75,365
13	Investment and financing with customers	-	-	4,855	-	1,001	5,856
14	Sukuk and taskeek exposures	-	-	-	-	-	-
15	Claims on central counterparties.	-	-	-	-	-	-
16	Other exposures	-	-	-	-	88,719	88,719
	Total	297,510	333,051	781,283	173,521	680,443	2,265,808

2017

(KD'000)

SN	Description of Credit Risk Exposures	Manufacturing & Trade	Banks & Financial Institutions	Construction & Real Estate	Government	Others	Total
1	Cash item	-	-	-	-	1,701	1,701
2	Claims on sovereigns	-	-	-	147,584	26,000	173,584
3	Claims on international organizations	-	-	-	-	-	-
4	Claims on public sector entities	25,046	-	-	12,904	-	37,950
5	Claims on multilateral development banks	-	8,136	-	-	-	8,136
6	Claims on banks	-	224,344	-	-	-	224,344
7	Claims on corporates	199,589	86,113	568,117	-	133,934	987,753
8	Regulatory retail exposure	-	-	-	-	261,363	261,363
9	Qualifying residential housing financing facilities	-	-	-	-	-	-
10	Past due exposures	-	-	-	-	13,196	13,196
11	Goods and commodities position	5,387	-	-	-	-	5,387
12	Real estate investments	-	-	54,767	-	-	54,767
13	Investment and financing with customers	-	-	5,935	-	3,504	9,439
14	Sukuk and taskeek exposures	-	-	-	-	-	-
15	Claims on central counterparties.	-	-	-	-	-	-
16	Other exposures	-	-	-	-	49,737	49,737
	Total	230,022	318,593	628,819	160,488	489,435	1,827,357

### 5.1.1 Irregular and past due credit facilities

The Bank complies with CBK instructions regarding the provisions required for credit risks by applying the requirements as per IFRS 9. With regard to the credit facilities/financing portfolio, the Bank estimates the expected credit losses in accordance with IFRS 9 and complies with the relevant CBK regulations or as per the instructions issued by CBK regarding rules and regulations concerning classification of credit facilities and calculation of their provisions and method for treating the revenues resulting therefrom, whichever is greater.

Irregular and past due financing facilities exposures in accordance with standard portfolios:

On December 31, 2018, the value of the irregular financing facilities (impaired), including the Bank's accounts receivable, amounted to KD 26,557 thousand (31 December 2017: KD 18,649 thousand) after excluding the deferred revenues and KD 24,593 thousand (31 December 2017: KD 16,494 thousand) after excluding the acceptable collaterals as per the instructions of the Central Bank of Kuwait for the purpose of calculating the Capital Adequacy Ratio.

As of 31 December 2018, the Bank's provisions are KD 34,642 thousand including a general provision of KD 21,769 thousand (31 December 2017: KD 20,890 thousand including a general provision of KD 15,437).

#### Irregular and past due exposures as per standard portfolios:

##### 2018

(KD'000)

SN	Description of Standard Portfolios	Impaired	Net Impaired after deducting acceptable guarantees	Specific Provision	Net Facilities	Past Due
1	Claims on banks	-	-	-	-	-
2	Claims on corporates	24,139	22,175	11,315	10,834	15,295
3	Regulatory retail exposures	2,418	2,418	1,558	860	8,782
4	Real estate investments	-	-	-	-	-
5	Investment and financing with customers	-	-	-	-	-
Total		26,557	24,593	12,873	11,694	24,077

##### 2017

(KD'000)

SN	Description of Standard Portfolios	Impaired	Net Impaired after deducting acceptable guarantees	Specific Provision	Net Facilities	Past Due
1	Claims on banks	-	-	-	-	-
2	Claims on corporates	16,156	14,001	3,902	10,099	53,504
3	Regulatory retail exposures	2,493	2,493	1,551	-	5,490
4	Real estate investments	-	-	-	-	-
5	Investment and financing with customers	-	-	-	-	-
Total		18,649	16,494	5,453	11,041	58,994

### Irregular and past due exposures as per geographical location:

#### 2018

(KD'000)

SN	Description of geographical location	Impaired	Specific Provision	Net Facilities	Past Due
1	MENA	24,593	12,873	11,694	24,077
2	Europe	-	-	-	-
3	Asia	-	-	-	-
	Total	24,593	12,873	11,694	24,077

#### 2017

(KD'000)

SN	Description of geographical location	Impaired	Specific Provision	Net Facilities	Past Due
1	MENA	18,649	5,453	11,041	58,994
2	Europe	-	-	-	-
3	Asia	-	-	-	-
	Total	18,649	5,453	11,041	58,994

### Irregular and past due exposures by industrial sector:

#### 2018

(KD'000)

SN	Description of Industrial Sector	Impaired	Specific Provision	Net Facilities	Past Due
1	Manufacturing and Trade	6,105	2,423	3,428	2,509
2	Banks and financial institutions	-	-	-	-
3	Constructions and real estates	17,021	7,878	7,407	4,793
4	Others	3,431	2,572	859	16,775
	Total	26,557	12,873	11,694	24,077

#### 2017

(KD'000)

SN	Description of Industrial Sector	Impaired	Specific Provision	Net Facilities	Past Due
1	Manufacturing and Trade	4,066	2,108	1,245	3,905
2	Banks and financial institutions	-	-	-	-
3	Constructions and real estates	11,103	1,301	8,360	47,022
4	Others	3,480	2,044	1,436	8,067
	Total	18,649	5,453	11,041	58,994

**Aging of Irregular and past due exposures:****2018**

(KD'000)

SN	Description of Irregular and past due exposures	Up to 3 months	From 3 months to 6 months	From 6 months to 12 months	More than 1 Year	Total
1	Impaired	1,532	9,192	5,068	10,765	26,557
2	Past Due	24,077	-	-	-	24,077
	Total	25,609	9,192	5,068	10,765	50,634

**2017**

(KD'000)

SN	Description of Irregular and past due exposures	Up to 3 months	From 3 months to 6 months	From 6 months to 12 months	More than 1 Year	Total
1	Impaired	-	9,847	5,310	3,492	18,649
2	Past Due	58,994	-	-	-	58,994
	Total	58,994	9,847	5,310	-	77,643

**General Provisions Balance:**

SN	Distribution of General Provisions to credit risk exposures	2018 (KD'000)	2017 (KD'000)
1	Claims on sovereigns	-	-
2	Claims on public sector institutions	359	250
3	Claims on banks	458	368
4	Claims on corporates	17,426	12,154
5	Regulatory retail exposures	3,252	2,571
6	Real estate investments	-	-
7	Investment and financing with customers	274	94
	Total	21,769	15,437

SN	Distribution of General Provisions to geographical location	2018 (KD'000)	2017 (KD'000)
1	MENA	20,428	14,651
2	Europe	958	547
3	Asia	179	46
4	Rest of the World	204	193
	Total	21,769	15,437

**5.1.2 Applicable Risk Mitigation Methods**

The Credit Policy of the Bank lays down guidelines for collateral valuation and management which includes, haircuts, minimum coverage requirement for different categories of collateral, revaluation, frequency and basis of revaluation, documentation, takaful, custodial requirements etc. According to the credit policy, the frequency of revaluing the collateral depends on the type of collateral. Specifically, daily revaluation is required for share collateral and also where the collateral is in a different currency than the exposure. This process is handled by a department independent of the business groups to ensure objectivity.

Acceptable collateral includes cash, bank guarantees, shares, real estate etc. subject to specific conditions on eligibility, margin requirements etc., laid down in the credit policy. The credit risk mitigation used for capital adequacy computation includes collateral in the form of cash and shares as well as guarantees in accordance with the CBK's rules and regulations concerning capital adequacy standard.

## Credit Risk Exposures, Eligible Collaterals and Banking Guarantees

2018

(KD'000)

SN	Description of Credit Risk Exposure	Total Credit Exposure	Eligible Collaterals	Banking Guarantees
1	Cash item	3,766	-	-
2	Claims on sovereigns	207,522	-	-
3	Claims on international organizations	-	-	-
4	Claims on public sector entities	47,481	-	-
5	Claims on multilateral development banks	8,087	-	-
6	Claims on banks	251,621	-	-
7	Claims on corporates	1,229,770	179,334	-
8	Regulatory retail exposure	330,841	4,299	-
9	Qualifying residential housing financing facilities	-	-	-
10	Past due exposures	13,658	1,964	-
11	Goods and commodities positions	3,122	-	-
12	Real estate investments	75,365	-	-
13	Investment and financing with customers	5,856	-	-
14	Sukuk and taskeek exposures	-	-	-
15	Claims on central counterparties.	-	-	-
16	Other exposures	88,719	-	-
Total		2,265,808	185,597	-

2017

(KD'000)

SN	Description of Credit Risk Exposure	Total Credit Exposure	Eligible Collaterals	Banking Guarantees
1	Cash item	1,701	-	-
2	Claims on sovereigns	173,584	-	-
3	Claims on international organizations	-	-	-
4	Claims on public sector entities	37,950	-	-
5	Claims on multilateral development banks	8,136	-	-
6	Claims on banks	224,344	-	-
7	Claims on corporates	987,753	189,451	-
8	Regulatory retail exposure	261,363	4,503	-
9	Qualifying residential housing financing facilities	-	-	-
10	Past due exposures	13,196	2,155	-
11	Goods and commodities positions	5,387	-	-
12	Real estate investments	54,767	-	-
13	Investment and financing with customers	9,439	3,240	-
14	Sukuk and taskeek exposures	-	-	-
15	Claims on central counterparties.	-	-	-
16	Other exposures	49,737	-	-
Total		1,827,357	199,349	-

## 5.2 Market Risks

Market risk emanates from the process of fair value or future cash flows of a financial instrument which fluctuates because of changes in market prices. Market risk may arise from open positions in profit rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market or prices such as profit rates, credit spreads, foreign exchange rates and equity prices.

The Risk Management Group is responsible for development of detailed Market Risk Management policies and for the periodic review of their implementation, while it is the responsibility of Investment Banking Group and Treasury to proactively manage and control market risk generated from various market positions in investments, financial instruments and over-the-counter deals.

### 5.2.1 Market Risk Framework

The Bank uses market practice for the valuation of its positions and receives regular market information in order to regulate market risk.

The market risk framework comprises of the following elements:

Limits for all market risk parameters and regular limits monitoring to ensure that Bank does not exceed aggregate risk and concentration parameters set by the CBK limits and internal limits.

Mark-to-market valuation based on independently published market data, and continuous review of all open positions.

The policies and procedures and the market risk limits are periodically set and reviewed to ensure the implementation of the Bank's market risk appetite. The Bank is required to comply with the guidelines and regulations of the Central Bank of Kuwait, in addition to its internal policies and procedures.

## 5.3 Liquidity Risks

Liquidity Risk is the risk of the Bank being unable to meet its financial liabilities when they fall due. Liquidity risk management is one of the vital components of the management of day-to-day banking business. In order to meet any eventuality, the Bank's liquidity strategy is to maintain a healthy level of liquid assets in the form of cash, cash equivalents and readily marketable securities. The Bank continuously monitors liquidity risk by measuring the maturity profile of its assets and liabilities on a daily basis and the liquidity gaps position is reviewed by Asset Liability Management Committee (ALCO) on a monthly basis. Furthermore, the Liquidity Coverage Ratio, Net Stable Funding Ratio, liquidity reserve position and the ratio of financing facilities to eligible deposits are monitored on a daily basis.

The Bank has in place a Contingency Funding Plan (CFP) which will be used as a blueprint of the action plan to be followed during any liquidity contingencies. The CFP establishes a framework which improves the Bank's preparedness to handle liquidity stress as it emerges due to systemic or non-systemic situations. It identifies trigger events that could potentially cause a liquidity crisis, details the actions to be taken to manage the crisis, and also lays down the administrative structure and responsibilities to ensure accountability in handling an emergency. The CFP supplements the existing Liquidity Risk Policy of the Bank and will be operative only in case of an adverse/ stress liquidity situation, actual or perceived.

Short-term assets to short-term liabilities ratio as of 31 December 2018 is 96% (31 December 2017: 103%) calculated as follows:

SN		2018	2017
1	Current assets (KD '000)	1,608,859	1,335,608
2	Current liabilities (KD '000)	1,680,032	1,302,568
	Current ratio	96%	103%

Maturity analysis of various categories of funding (current account, unrestricted investment account and restricted investment account) are as follows:

### 2018

(KD'000)

SN	Categories of funding	Up to 3 months	3 to 12 months	Over 1 year	Total
1	Current account	120,177	-	-	120,177
2	Unrestricted investment account	788,430	739,059	235,881	1,763,430
3	Restricted investment account	-	-	-	-
4	Other Deposits	4,694	-	-	4,694
	Total	913,301	739,059	235,881	1,888,241

### 2017

(KD'000)

SN	Categories of funding	Up to 3 months	3 to 12 months	Over 1 year	Total
1	Current account	106,884	-	-	106,884
2	Unrestricted investment account	754,470	418,317	293,004	1,465,791
3	Restricted investment account	-	-	-	-
4	Other Deposits	9,042	-	-	9,042
	Total	870,396	418,317	293,004	1,581,717

### 5.3.1 Liquidity Coverage Ratio Disclosure

The qualitative and quantitative public disclosures under this section have been prepared in accordance with the Central Bank of Kuwait (CBK) Rules and Regulations concerning Liquidity Coverage Ratio for Islamic Banks licensed in the State of Kuwait, vide circular reference (2/IBS/346/2014) dated 23/12/2014.

#### **Qualitative disclosure on LCR**

The Liquidity Coverage Ratio (LCR) is a global standard for assessing bank liquidity. It aims to ensure that a bank has adequate unencumbered High Quality Liquid Assets (HQLA) that can be converted into cash easily and immediately to meet its liquidity needs for a 30 calendar day liquidity stress scenario.

LCR has been defined as 
$$\frac{\text{Stock of high quality liquid assets (HQLAs)}}{\text{Total net cash outflows over the next 30 calendar days}}$$

Liquid assets comprise of high quality assets that can be readily sold or used as collateral to obtain funds in a range of stress scenarios. There are two categories of assets included in the stock of HQLAs, viz. Level 1 and Level 2 assets. Level 1 assets are with 0% haircut while Level 2A assets are with a minimum 15% haircut and Level 2B Assets, with a minimum 50% haircut.

The total net cash outflows is the total expected cash outflows minus total expected cash inflows for the upcoming 30 calendar days. Total expected cash outflows are calculated by multiplying the outstanding balances of various categories or types of liabilities and off balance sheet commitments by the rates at which they are expected to run off or be drawn down. Total expected cash inflows are calculated by multiplying the outstanding balances of various categories of contractual receivables by the rates at which they are expected to flow in up to an aggregate cap of 75% of total expected cash outflows.

The Bank's focus has been to ensure diversified funding sources in addition to its core deposit base. The Treasury of the Bank manages liquidity by constant monitoring of future cash flows and liquidity needs. This incorporates an assessment of expected cash flows and the availability of high quality assets which could be used to secure additional funding if required. The bank also conducts stress tests to assess impact of stress on liquidity under various scenarios. Furthermore the bank has established a Contingency Funding Plan to manage liquidity during stressed conditions.

The average HQLA for the quarter ended 31 December 2018 was KD 227.6 Million of which Central Bank reserves constituted about 82%. Average cash outflows over a 30-day horizon amounted to KD 307.9 Million while average inflows from assets were KD 132.3 Million.

Bank's LCR of 130% (based on average of last three months' position) was above the minimum 90% prescribed by CBK for 2018. Management of liquidity is centrally managed through the Treasury within the bank. The Bank has sufficient liquidity sources for outflows and management is of the view that we are adequately liquid as required by LCR regulations. The Asset and Liability Management Committee (ALCO) of the Bank is responsible for oversight of liquidity management and review of positions on monthly basis and/or on need basis based on systemic risks.

Quantitative information on Liquidity coverage ratio (LCR) is given below:

**LCR common disclosure template for the quarter ending on 31 December 2018**

Description	"value in KD'000"	
	Value before applying inflows rates (average)*	Value after applying inflows rates (average)*
<b>High-Quality Liquid Assets (HQLA)</b>		
1 Total HQLA (before adjustments)	-	227,553
<b>Cash Outflows</b>		
2 <u>Retail deposits and small business</u>	252,444	43,962
3 • Stable deposits	-	-
4 • Less stable deposits	252,444	43,962
5 Unsecured wholesale funding excluding the deposits of small business customers:	406,422	237,030
6 • Operational deposits	-	-
7 • Non-operational deposits (other unsecured commitments)	406,422	237,030
8 Secured Funding	-	-
9 Other cash outflows, including:	-	-
10 • Resulting from Shari'ah compliant hedging contracts	-	-
11 • Resulting from assets-backed sukuk and other structured funding instruments	-	-
12 • Binding credit and liquidity facilities	-	-
13 Other contingent funding obligations	537,469	26,873
14 Other contractual cash outflows obligations	-	-
<b>15 Total Cash Outflows</b>	<b>-</b>	<b>307,865</b>
<b>Cash Inflows</b>		
16 Secured lending transactions	-	-
17 Inflows from fully performing exposures (as per the counterparties)	136,777	132,347
18 Other cash Inflows	-	-
<b>19 Total Cash Inflows</b>	<b>136,777</b>	<b>132,347</b>
<b>Liquidity Coverage Ratio (LCR)</b>		<b>Total Adjusted Value</b>
20 Total HQLA (after adjustments)		227,553
21 Net Cash Outflows		175,519
22 LCR		130%

\*Simple Average for all days of the reported quarter.

LCR common disclosure template for the quarter ending on 31 December 2017\*

Description	"value in KD'000"	
	Value before applying inflows rates (average)*	Value after applying inflows rates (average)*
<b>High-Quality Liquid Assets (HQLA)</b>		
1 Total HQLA (before adjustments)		140,958
<b>Cash Outflows</b>		
2 <u>Retail deposits and small business</u>	169,207	30,267
3 • Stable deposits	-	
4 • Less stable deposits	169,207	30,267
5 Unsecured wholesale funding excluding the deposits of small business customers:	282,292	163,450
6 • Operational deposits	-	
7 • Non-operational deposits (other unsecured commitments)	282,292	163,450
8 Secured Funding		
9 Other cash outflows, including:	-	
10 • Resulting from Shari'ah compliant hedging contracts	-	
11 • Resulting from assets-backed sukuk and other structured funding instruments	-	
12 • Binding credit and liquidity facilities	-	
13 Other contingent funding obligations	437,491	21,875
14 Other contractual cash outflows obligations	-	
15 <b>Total Cash Outflows</b>		<b>215,591</b>
<b>Cash Inflows</b>		
16 Secured lending transactions	-	
17 Inflows from fully performing exposures (as per the counterparties)	106,425	102,557
18 Other cash Inflows	-	
19 <b>Total Cash Inflows</b>	<b>106,425</b>	<b>102,557</b>
<b>Liquidity Coverage Ratio (LCR)</b>		<b>Total Adjusted Value</b>
20 Total HQLA (after adjustments)		140,958
21 Net Cash Outflows		113,034
22 LCR		125%

\*Simple Average for all days of the reported quarter.

### 5.3.2 Net Stable Funds Ratio

The qualitative and quantitative public disclosures under this section have been prepared in accordance with the Central Bank of Kuwait (CBK) Rules and Regulations concerning Net Stable Funds Ratio for Islamic Banks licensed in the State of Kuwait, vide circular reference (2/IBS/357/2015) dated 25/10/2015.

#### Qualitative disclosure on NSFR

The purpose of the Net Stable Funding Ratio ("NSFR") is to ensure that banks hold a minimum amount of stable funding based on the liquidity characteristics of their assets and activities over a one year horizon. The objective is to reduce maturity mismatches between the asset and liability items on the balance sheet and thereby reduce funding risk.

The minimum requirement on NSFR is defined as follows

$$\frac{\text{Available Amount of Stable Funding}}{\text{Required Amount of Stable Funding}} > 100 \%$$

"Stable funding" is defined as those types and amounts of equity and liability financing expected to be reliable sources of funds over a one-year time horizon under conditions of extended stress. The amount of Available Stable Funding (ASF) is measured based on the broad characteristics of the relative stability of the bank's funding sources, including the contractual maturity of its liabilities and the differences in the likelihood of different types of funding providers to withdraw their funding. The amount of Required Stable Funding (RSF) is measured based on the broad characteristics of the liquidity risk profile of the bank's assets and Off Balance Sheet exposures. Assets that are more liquid and more readily available to act as a source of extended liquidity in the stressed environment identified above receive lower RSF factors (and require less stable funding) than assets considered less liquid in such circumstances and, therefore, require more stable funding.

Warba Bank's strategy has been to ensure that there is adequate available stable funding to match its required stable funding at all times. In ensuring this the Bank has focused on increasing its funding from long term sources. The Bank also accessed Syndicated borrowing of USD 400 Million of almost 3 years tenor to improve its overall NSFR.

As of 31 December 2018 the bank's NSFR was at 111.03 % compared to the minimum requirement of 100%. The total ASF after assigning weights (ASF Factors) was KD 1,391 Million while the RSF after applying weights was KD 1,253 Million.

## NSFR common disclosure template as at 31 December 2018

Value in KWD '000s

Sr.	Item	Unweighted Values (i.e. before applying relevant factors)				Total weighted value
		No specified maturity	Less than 6 months	More than 6 months and less than one year	Over one year	
<b>Available Stable Funding (ASF):</b>						
1	Capital					
2	Regulatory Capital	284,731	-	-	-	284,731
3	Other Capital Instruments	-	-	-	-	-
4	Retail deposits and deposits and investment accounts from small business customers:					
5	Stable deposits	-	-	-	-	-
6	Less stable deposits	-	203,663	36,260	17,497	233,428
7	Wholesale funding:					
8	Operational deposits and investment accounts	-	-	-	-	-
9	Other wholesale funding	-	1,093,842	318,595	218,385	873,342
10	Other liabilities:					
11	NSFR Shariah-compliant hedging contract liabilities	-	-	-	-	-
12	All other liabilities not included in the above categories	107,086	12,815	-	-	-
13	Total ASF					1,391,500
<b>Required Stable Funding (RSF):</b>						
14	Total NSFR Shariah-compliant high-quality liquid assets (HQLA)	149,370	-	-	-	6,019
15	Deposits and investment accounts held at other financial institutions for operational purposes	-	-	-	-	-
16	Performing financing and securities:					
17	Performing financing to financial institutions secured by Level 1 HQLA	-	-	-	-	-
18	Performing financing to financial institutions secured by non-Level 1 HQLA and unsecured performing financing to financial institutions	6,718	262,073	-	-	39,311
19	Performing financing to non-financial corporate clients, loans to retail and small business customers, and financing to sovereigns, central banks and PSEs, of which:					
20	- With a risk weight of less than or equal to 35% as per the Capital Adequacy Ratio - Basel 3 guidelines	-	-	-	-	-
21	Performing residential financing, of which:					

Sr.	Item	Unweighted Values (i.e. before applying relevant factors)				Total weighted value
		No specified maturity	Less than 6 months	More than 6 months and less than one year	Over one year	
22	- With a risk weight of less than or equal to 35% under the CBK Capital Adequacy Ratio – Basel III Guidelines	-	-	-	-	-
23	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	-	-	-	103,509	87,982
24	Other assets:					
25	Physical traded commodities, including gold	-				-
26	Assets posted as initial margin for Shari'ah-compliant hedging contracts and contributions to default funds of CCPs		-	-	-	-
27	NSFR Shari'ah-compliant hedging contract assets		-	-	-	-
28	NSFR Shari'ah-compliant hedging contract liabilities before deduction of variation margin posted		-	-	-	-
29	All other assets not included in the above categories	183,933	14,818	501	-	185,186
30	Off Balance Sheet Items	381,387	51,468	25,405	47,715	25,299
31	Total RSF					1,253,321
32	NSFR (%)					111.03%

#### 5.4 Profit Rate Risk

Profit rate risk arises from the changes in profit rates affecting future cash flows or the fair value of the underlying financial exposure or instrument. The Bank is susceptible to profit rate risk as value of Bank's fixed income investments and/or return on financing are inversely related to rising rates. Moreover, change in profit rates might also impact Bank's net earnings or earnings spread.

The Bank conducts stress testing and scenario analyses regularly to manage profit rate risk inherent in the balance sheet. Earnings-at-Risk analysis is conducted monthly, to determine the impact of changes in the cost of funds and yield on assets on profitability. Such analysis is also monitored by the senior management of the Bank through the Asset and Liability Management Committee (ALCO).

#### 2018

(KD'000)

Impact of 25 bps move upwards	Upto 7 Days	7 Days to 1 Month	1 to 3 months	3 to 6 months	6 months to 1 Year	Total Impact
Assets	669	651	1,282	576	79	3,257
Liabilities	(159)	(415)	(928)	(606)	(224)	(2,332)
Net Impact	510	236	354	(30)	(145)	925

#### 2018

(KD'000)

Impact of 25 bps move downwards	Upto 7 Days	7 Days to 1 Month	1 to 3 months	3 to 6 months	6 months to 1 Year	Total Impact
Assets	(669)	(651)	(1,282)	(576)	(79)	(3,257)
Liabilities	159	415	928	606	224	2,332
Net Impact	(510)	(236)	(354)	30	145	(925)

#### 2017

(KD'000)

Impact of 25 bps move upwards	Upto 7 Days	7 Days to 1 Month	1 to 3 months	3 to 6 months	6 months to 1 Year	Total Impact
Assets	271	483	527	266	64	1,611
Liabilities	(232)	(528)	(818)	(401)	(101)	(2,080)
Net Impact	39	(45)	(291)	(135)	(37)	(469)

#### 2017

(KD'000)

Impact of 25 bps move downwards	Upto 7 Days	7 Days to 1 Month	1 to 3 months	3 to 6 months	6 months to 1 Year	Total Impact
Assets	(271)	(483)	(527)	(266)	(64)	(1,611)
Liabilities	232	528	818	401	101	2,080
Net Impact	(39)	45	291	135	37	469

## 5.5 Equity Risk in the Banking Book

As of 31 December 2018, the Bank's investments in equity positions other than sukuk amounted to KD 46,992 thousand (31 December 2017: KD 25,781 thousand) as detailed below:

Investments types	2018 (KD '000)	2017 (KD '000)
Quoted equity security	7,159	756
Unquoted equity security	5,492	4,098
Unquoted Portfolios and Funds	21,333	16,923
Other unquoted investments	13,008	4,004
Total	46,992	25,781

All equity investments are recorded at fair value.

During the year, the Bank has recorded realized gain from sale of equity investments amounting to KD Nil thousand in the income statement and unrealized loss from change in fair value of the quoted securities amounting to KD 849 thousand (31 December 2017: KD 81 thousand) in the other comprehensive income.

The minimum required capital for equity investment as at 31 December 2018 was KD 3,837 thousand (31 December 2017: KD1,940 thousand).

## 5.6 Operational Risks

Operational Risk is defined as the risk of loss arising from inadequate or failed internal processes, systems failure, human error, or from external events including losses resulting from failure to comply with Islamic Shari'a regulations. When controls fail to perform, it can have legal or regulatory implications, or lead to financial or reputational loss.

### 5.6.1 Operational Risk Frameworks

The Bank has a set of policies approved by the Board of Directors that are applied to identify, assess and supervise operational risk in addition to other types of risk relating to the banking and financial activities of the Bank.

Operational risk is managed under the Risk Management Group. This Group ensures compliance with policies and procedures to identify, assess, supervise and monitor operational risk in accordance with the Bank's Risk Management Framework.

The Bank manages operational risks in line with the Central Bank of Kuwait instructions regarding "General Guidelines for Internal Control Systems" and directives regarding "Sound Practices for the Management and Control of Operational Risks". The Bank pays special attention to operational risks that may arise from non-compliance to Islamic Sharia principles and any possible failure in fiduciary responsibilities.

The Bank has established its Business Continuity Management (BCM) Policy to meet any internal or external failures and eventualities enabling smooth functioning of the Bank's operations. The Bank has established Disaster Recovery (DR) site for its IT infrastructure, which ensures that the operational risks do not adversely impact the Bank's business.

## SIXTH: INVESTMENT ACCOUNTS

Warba Bank receives fund from depositors through various product structures that comply with Islamic Shari'a.

The Bank receives deposits from customers as part of unrestricted Wakala investment accounts either for limited or renewable periods. Funds are invested in financing and investing activities that will achieve a targeted return.

The Bank also receives funds from depositors through unrestricted Mudarabah Agreements, where depositors grant the bank (Mudarib) the right to invest these funds against a share in profit. The Mudarib would bear the loss in case of negligence or violation of any of the terms and conditions of the Mudaraba.

Pools of Assets in which the funds are invested is determined along with the relevant costs and revenues (costs or expenses included are those that are only directly related to general pool assets, meanwhile indirect expenses as General and Administrative expenses and staff cost are not charged), based on which the net profit is determined and shared between the bank and the depositors proportionately based on each contribution to the pools and the specificity of the contractual agreements with the depositors.

Profit percentage distributed to the profit-sharing investment accounts were as follows:

### 2018

SN	Account Category	Q1	Q2	Q3	Q4
1	Saving accounts	1.02%	1.02%	1.16%	1.26%

### 2017

SN	Account Category	Q1	Q2	Q3	Q4
1	Saving accounts	1.02%	1.03%	1.01%	1.00%



# Financial Statements and Independent Auditor's Report

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

## Report on the Audit of Consolidated Financial Statements

### Opinion

We have audited the consolidated financial statements of Warba Bank K.S.C.P. (the "Bank") and its subsidiaries (collectively "the Group"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, consolidated statement of 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 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS"), as adopted for use by the State of Kuwait.

### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISA"). 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' Code of Ethics for Professional Accountants (the 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 period. 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 the matter below, our description of how our audit addressed the matter is provided in that context.

#### *Credit losses of financing receivables*

The recognition of credit losses on financing receivables to customers is the higher of Expected Credit Loss ("ECL") determined under International Financial Reporting Standard 9: Financial Instruments ("IFRS 9"), according to Central Bank of Kuwait (the "CBK") guidelines, and the provision required by the CBK instructions as disclosed in the accounting policies and in Note 2.1 and 2.4 to the consolidated financial statements.

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

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

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

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

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

#### **Other information included in the Group's 2018 Annual Report**

Management is responsible for the other information. Other information consists of the information included in Group's 2018 Annual Report, other than the consolidated financial statements and our auditors' report thereon. We obtained the report of the Bank's Board of Directors, prior to the date of our Auditors' report, and we expect to obtain the remaining sections of the Group's 2018 Annual Report 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 in 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 this other information; we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

## **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 scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our Auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our Auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

### Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of account have been kept by the Bank and the consolidated financial statements, together with the contents of the report of the Bank's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the Central Bank of Kuwait ("CBK") as stipulated in CBK Circular Nos. 2/RB, RBA/336/2014 dated 24 June 2014 and 2/I.B.S. 343/2014 dated 21 October 2014 respectively, the Companies Law No 1 of 2016, as amended, and its executive regulations, as amended, and by the Bank's Memorandum of Incorporation and Articles of Association, 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 2/I.B.S. 343/2014 dated 21 October 2014 respectively, the Companies Law No 1 of 2016, as amended, and its executive regulations, as amended, or of the Bank's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2018 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 2018 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



**SAFI A. AL-MUTAWA**  
License No. 138 "A"  
of KPMG Safi Al-Mutawa & Partners  
Member firm of KPMG International

30 January 2019  
Kuwait

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018 KD'000	2017 KD'000 (Restated)	1 January 2017 KD'000 (Restated)
<b>ASSETS</b>				
Cash and balances with banks	3	19,738	13,201	5,480
Placements with banks and the CBK		256,486	246,484	166,940
Financing receivables	4	1,606,542	1,263,322	827,872
Financial assets at fair value through profit or loss	5	41,500	-	-
Financial assets at fair value through other comprehensive income	6	148,585	-	-
Available-for-sale investments	7	-	165,921	99,825
Investments in joint ventures	8	52,498	31,660	-
Investment properties	9	22,867	24,611	15,632
Other assets		26,495	23,347	6,387
Property and equipment		18,358	5,999	5,643
<b>TOTAL ASSETS</b>		<b>2,193,069</b>	<b>1,774,545</b>	<b>1,127,779</b>
<b>LIABILITIES AND EQUITY</b>				
<b>LIABILITIES</b>				
Due to banks and other financial institutions	10	835,063	572,864	274,131
Depositors' accounts	11	1,053,178	1,006,614	747,433
Other liabilities		33,900	18,108	10,626
<b>TOTAL LIABILITIES</b>		<b>1,922,141</b>	<b>1,597,586</b>	<b>1,032,190</b>
<b>EQUITY</b>				
Share capital	12	150,000	100,000	100,000
Share premium	12	40,000	-	-
Statutory reserve	12	1,353	-	-
Fair value reserve		(4,646)	(214)	(430)
Foreign currency translation reserve		79	251	-
Retained earnings (accumulated losses)		7,779	559	(3,981)
<b>EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE BANK</b>		<b>194,565</b>	<b>100,596</b>	<b>95,589</b>
Perpetual Tier 1 Sukuk	13	76,363	76,363	-
<b>TOTAL EQUITY</b>		<b>270,928</b>	<b>176,959</b>	<b>95,589</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>2,193,069</b>	<b>1,774,545</b>	<b>1,127,779</b>



**Abdulwahab A. Al Houti**  
Chairman



**Shaheen H. Al Ghanem**  
Chief Executive Officer

The accompanying notes 1 to 25 form an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2018

	Notes	2018 KD'000	2017 KD'000 (Restated)
Placements and financing income		73,105	51,704
Finance costs and distribution to depositors		(38,979)	(23,061)
<b>Net financing income</b>		<b>34,126</b>	<b>28,643</b>
Net investment income	14	10,924	6,387
Net fees and commission income	15	3,793	2,178
Other income		20	303
Foreign exchange gain		689	601
<b>Operating income</b>		<b>49,552</b>	<b>38,112</b>
Staff costs		(12,309)	(11,640)
General and administrative expenses		(5,509)	(5,092)
Depreciation		(1,141)	(1,270)
<b>Operating expenses</b>		<b>(18,959)</b>	<b>(18,002)</b>
<b>Net operating profit before provision for impairment</b>		<b>30,593</b>	<b>20,110</b>
Provision for impairment	16	(17,064)	(12,318)
<b>Net profit for the year before deductions</b>		<b>13,529</b>	<b>7,792</b>
Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)		(122)	-
National Labor Support Tax (NLST)		(410)	(184)
Zakat		(159)	(74)
Directors' remuneration		(100)	(80)
<b>Net profit for the year</b>		<b>12,738</b>	<b>7,454</b>
<b>Basic and diluted earnings per share</b>	17	<b>7.06 fils</b>	<b>4.61 fils</b>

The accompanying notes 1 to 25 form an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	2018 KD'000	2017 KD'000 (Restated)
Net profit for the year		12,738	7,454
<b>Other comprehensive (loss) income:</b>			
<i>Other comprehensive (loss) income that are or may be reclassified to profit or loss in subsequent periods:</i>			
Available-for-sale investments (IAS 39)			
- Change in fair value		-	563
- Gain on sale of available-for-sale investments	14	-	(347)
Net gain on available-for-sale investments		-	216
Change in fair value of debt instruments at fair value through other comprehensive income		(7,111)	-
Realised loss on sale of debt instruments at fair value through other comprehensive income	14	651	-
Exchange differences on translation of foreign operations		(172)	251
Net profit from hedging cash flows		57	-
		(6,575)	251
		(6,575)	467
<i>Other comprehensive income that will not be reclassified to statement of profit or loss in subsequent periods:</i>			
Change in the fair value of equity investments at fair value through other comprehensive income		849	-
Total other comprehensive (loss) income		(5,726)	467
<b>Total comprehensive income</b>		<b>7,012</b>	<b>7,921</b>

The accompanying notes 1 to 25 form an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Share capital KD'000	Share premium KD'000	Statutory reserve KD'000	Fair value reserve KD'000	Foreign currency translation reserve KD'000	Retained earnings/ (accumulated losses) KD'000	Equity attributable to shareholders of the Bank KD'000	Perpetual Tier 1 Sukuk KD'000	Total equity KD'000
Balance at 1 January 2018	100,000	-	-	(214)	251	559	100,596	76,363	176,959
Transitional adjustment on adoption of IFRS 9 at 1 January 2018 (Note 2.2)	-	-	-	1,122	-	915	2,037	-	2,037
Balance at 1 January 2018 after the transitional adjustment on adoption of IFRS 9	100,000	-	-	908	251	1,474	102,633	76,363	178,996
Net profit for the year	-	-	-	-	-	12,738	12,738	-	12,738
Other comprehensive loss	-	-	-	(5,554)	(172)	-	(5,726)	-	(5,726)
Total comprehensive (loss) income	-	-	-	(5,554)	(172)	12,738	7,012	-	7,012
Increase in share capital (Note 12)	50,000	40,000	-	-	-	-	90,000	-	90,000
Costs directly related to increase in share capital	-	-	-	-	-	(172)	(172)	-	(172)
Transferred to the statutory reserve	-	-	1,353	-	-	(1,353)	-	-	-
Profit paid on Perpetual Tier 1 Sukuk (Note 13)	-	-	-	-	-	(4,908)	(4,908)	-	(4,908)
<b>Balance at 31 December 2018</b>	<b>150,000</b>	<b>40,000</b>	<b>1,353</b>	<b>(4,646)</b>	<b>79</b>	<b>7,779</b>	<b>194,565</b>	<b>76,363</b>	<b>270,928</b>
Balance at 1 January 2017	100,000	-	-	(430)	-	(4,798)	94,772	-	94,772
Impact of the change in the accounting policy (Note 25)	-	-	-	-	-	817	817	-	817
Balance at 1 January 2017 (restated)	100,000	-	-	(430)	-	(3,981)	95,589	-	95,589
Net profit for the year (restated)	-	-	-	-	-	7,454	7,454	-	7,454
Other comprehensive income (restated)	-	-	-	216	251	-	467	-	467
Total comprehensive income (restated)	-	-	-	216	251	7,454	7,921	-	7,921
Issue of Perpetual Tier 1 Sukuk (Note 13)	-	-	-	-	-	-	-	76,363	76,363
Transaction costs on issue of Perpetual Tier 1 Sukuk (Note 13)	-	-	-	-	-	(463)	(463)	-	(463)
Profit paid on Perpetual Tier 1 Sukuk (Note 13)	-	-	-	-	-	(2,451)	(2,451)	-	(2,451)
Balance at 31 December 2017 (restated)	<b>100,000</b>	<b>-</b>	<b>-</b>	<b>(214)</b>	<b>251</b>	<b>559</b>	<b>100,596</b>	<b>76,363</b>	<b>176,959</b>

The accompanying notes 1 to 25 form an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Notes	2018 KD'000	2017 KD'000 (Restated)
<b>OPERATING ACTIVITIES</b>			
Net profit for the year		12,738	7,454
Adjustments for:			
Net investment income	14	(10,924)	(6,387)
Provision for end of service benefits		618	888
Depreciation		1,141	1,270
Provision for impairment	16	17,064	12,318
		20,637	15,543
Changes in operating assets and liabilities:			
Placements with banks and the CBK		31,752	(22,684)
Financing receivables		(356,425)	(447,224)
Other assets		(3,012)	(17,051)
Due to banks and other financial institutions		261,950	298,342
Depositors' accounts		46,564	256,116
Other liabilities		11,057	10,724
<b>Net cash generated from operating activities</b>		<b>12,523</b>	<b>93,766</b>
<b>INVESTING ACTIVITIES</b>			
Purchase of financial assets at fair value through profit of loss		(17,279)	-
Proceed from sale and redemption of financial assets at fair value through profit of loss		290	-
Purchase of financial assets at fair value through other comprehensive income		(128,460)	-
Proceed from sale of financial assets at fair value through other comprehensive income		118,453	-
Purchase of available-for-sale investments		-	(149,646)
Proceed from sale and redemption of available-for-sale investments		-	82,318
Additions to investment in joint ventures	8	(19,853)	(31,686)
Purchase of investment property	9	-	(8,891)
Purchase of property and equipment		(13,965)	(1,651)
Dividend received from financial assets		1,927	1,535
Sukuk income received		6,053	3,709
Other investment income received		191	148
Dividend received from joint ventures	8	2,331	392
Rental income received		1,432	1,138
<b>Net cash used in investing activities</b>		<b>(48,880)</b>	<b>(102,634)</b>
<b>FINANCING ACTIVITIES</b>			
Proceeds from increase in share capital	12	90,000	-
Costs directly related to increase in share capital		(172)	-
Perpetual Tier 1 Sukuk issuing costs	13	-	(463)
Proceeds from issue of Perpetual Tier 1 Sukuk	13	-	76,363
Profit paid to holders of Perpetual Tier 1 Sukuk	13	(4,908)	(2,451)
<b>Net cash generated from financing activities</b>		<b>84,920</b>	<b>73,449</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>48,563</b>	<b>64,581</b>
Cash and cash equivalents at 1 January		181,086	116,505
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>	3	<b>229,649</b>	<b>181,086</b>

The accompanying notes 1 to 25 form an integral part of these consolidated financial statements.

## 1. CORPORATE INFORMATION

Warba Bank K.S.C.P. (the "Bank") is a Kuwaiti public shareholding company, incorporated on 17 February 2010 in the State of Kuwait by virtue of Amiri Decree No. 289/2009. The Bank is registered as an Islamic banking institution in accordance with the rules and regulations of the Central Bank of Kuwait (the "CBK") on 7 April 2010 and its shares are publicly traded on the Boursa Kuwait. The Bank's registered office is at Sanabil Tower, 26th – 28th floor, Abdullah Al Ahmed Street, P.O. Box 1220, Safat 13013, State of Kuwait.

The Bank is primarily involved in investment, corporate and retail banking activities in accordance with the principles of Islamic Sharia'h, as approved by the Bank's Sharia'h Supervisory Board.

The consolidated financial statements of the Bank and its wholly owned special purpose vehicles (collectively the "Group") for the year ended 31 December 2018 were authorized for issue in accordance with a resolution of the Board of Directors on 14 January 2019. The shareholders of the Bank have the power to amend these consolidated financial statements in the Annual General Assembly Meeting.

### 2.1 BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with the regulations for financial services institutions as issued by the Central Bank of Kuwait ("CBK") in the State of Kuwait. These regulations require expected credit loss ("ECL") to be measured at the higher of the ECL on financing 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 (IFRSs) as issued by the International Accounting Standards Board ("IASB") (collectively referred to as IFRS, as adopted for use by the State of Kuwait).

The consolidated financial statements have been prepared under the historical cost convention except for the measurement at fair value of financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income, investment properties and profit rate swaps.

The consolidated financial statements have been presented in Kuwaiti Dinars ("KD") which is the Bank's functional currency, rounded to the nearest thousand unless otherwise stated.

### 2.2 CHANGES IN ACCOUNTING POLICIES

On 1 January 2018, the Group elected to change the method of valuing its investment properties to the fair value method as permitted by IAS 40 - Investment Properties, whereas during prior periods, investment properties were valued using the cost method. The management believes that the application of the fair value method in measurement of investment properties provides reliable and relevant information for the users of the consolidated financial statements and this aligns with the widely accepted policy of valuing investment properties. Therefore, comparative information of prior years has been adjusted in order to apply the new accounting method retrospectively as detailed in Note 25.

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the previous financial year, except for the change in the above mentioned accounting policy and the adoption of IFRS 9: Financial Instruments and IFRS 15: Revenue from Contracts with Customers. The nature and the impact of each amendment is described below:

#### IFRS 15 – Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and is effective for annual periods commencing on or after 1 January 2018. IFRS 15 outlines a single comprehensive model of accounting for revenue arising from contracts with customers and supersedes current revenue guidance, which is found currently across several Standards and Interpretations within IFRS. It established a new five-steps model that will apply to revenue arising from contracts with customers.

Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

Adoption of IFRS 15 had no significant impact on the consolidated financial statements of the Group.

### ***IFRS 9 – Financial Instruments***

The Group has adopted IFRS 9 - Financial Instruments issued in July 2014 with a date of initial application of 1 January 2018, with the exception of requirements of the expected credit losses on financing facilities as noted above in Note 2.1. The requirements of IFRS 9 represent a significant change from IAS 39 Financial Instruments: Recognition and Measurement. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

#### ***Classification of financial assets***

To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity investments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

The IAS 39 measurement categories of financial assets (fair value through profit or loss ("FVTPL"), available for sale ("AFS"), held-to-maturity ("HTM") and amortised cost) have been replaced by:

1. Financial assets at amortised cost
2. Financial assets at fair value through other comprehensive income ("FVOCI")
3. Financial assets at FVTPL

#### ***1) Financial assets at amortised cost***

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and

The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit (SPPP).

Financial assets at amortised cost are subsequently measured at amortised cost using the effective profit method. The amortised cost is reduced by the ECL. Financing income, foreign exchange gains or losses, ECLs and gain or loss on de-recognition are recognised in the consolidated statement of profit or loss.

Cash, balances with banks, placements with banks, balances with the Central Bank of Kuwait, financing receivables and other assets are classified as financial assets at amortised cost.

#### ***2) Financial assets at FVOCI***

##### **a) Debt instruments (Sukuk) measured at FVOCI**

The Group applies the new category under IFRS 9 of debt instruments measured at FVOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial instrument meet the SPPP test

Debt instruments at FVOCI are subsequently measured at fair value, for which resulting gains or losses arising

from changes in fair value are recognised in OCI. Financing income, foreign exchange gains or losses and ECLs are recognised in the consolidated statement of profit or loss. On de-recognition, cumulative gains or losses previously recognized in OCI will be reclassified from equity to the consolidated statement of profit or loss.

The management of the Group classifies and carries certain quoted and unquoted Sukuk within Financial assets instruments at FVOCI in the consolidated statement of financial position.

#### **b) Equity instruments at FVOCI**

Upon initial recognition, the Group may elect to classify irrevocably some of its equity investments (Equity) as equity instruments at FVOCI when 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 instruments at FVOCI are subsequently measured at fair value. Changes in fair values including foreign exchange component are recognised in OCI and are presented within the cumulative changes in fair value as a part of equity. Cumulative gains or losses previously recognized as OCI are transferred to retained earnings on de-recognition and are not recognized in the consolidated statement of profit or loss.

Dividend income on equity investments at FVOCI is recognised in the consolidated statement of profit or loss unless it clearly represents a recovery of part of the cost of the investment in which case it is recognised in other comprehensive income. Equity investments at FVOCI are not subject to impairment assessment.

The management of the Group classifies and carries certain unquoted equity within Financial assets instruments at FVOCI in the consolidated statement of financial position.

#### **3) Financial assets at fair value through profit or loss (FVTPL)**

The Group records and measures financial assets at fair value through profit or loss in the consolidated statement of financial position at fair value. In addition, on initial recognition, the Group may irrevocably designate a financial asset at FVTPL even if it meets the requirements to be measured at amortised cost or at FVOCI and by doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Changes in fair value, financing income and dividend are recorded in the consolidated statement of profit or loss according to the terms of the contract, or when the right to payment has been established.

Included in this classification are certain equity securities and funds that have been acquired principally for the purpose of selling or repurchasing in the near term.

#### *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 objectives. 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 observable factors such as:

- How the performance of the business model and the financial assets held within that business model is evaluated and reported to the entity's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected). The expected frequency, value and timing of sales are also important aspects of the management's assessment.

The business model assessment is based on reasonably expected scenarios without taking the '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.

#### *The SPPP test*

As a second step of its classification process the Group assesses the contractual terms of financial asset 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 that may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of profit within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPP assessment, the Group applies judgement and considers relevant factors such as the currency in which the financial asset is denominated and the period for which the profit rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and profit on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

#### ***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.

#### ***Impairment of financial assets***

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and financing investments at FVOCI, but not to investments in equity. Under IFRS 9, credit losses are recognised earlier than under IAS 39. The credit losses are based on ECL associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since initial recognition. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the credit loss is based on the change in ECL over the life of the asset.

#### ***Policy applicable from 1 January 2018***

The Group recognises ECL for financing receivables, non-cash credit facilities in the form of bank guarantees, letters of guarantee, documentary letters of credit, undrawn cash and non-cash credit facilities (revocable and irrevocable) (together "financing facilities"), placements with banks and investment in debt instruments measured at FVOCI.

Balances with the CBK and Sukuk issued by the CBK and Government of Kuwait is fully recoverable and hence no ECL is measured. Equity investments are not subject to ECL.

The Group provides for credit losses on financing facilities according to the CBK guidelines and records the impairment of financing facilities at the higher of ECL under IFRS 9 according to the CBK guidelines, and the provisions required by the CBK instructions (described in policy applicable before 1 January 2018 below).

### ***Expected Credit Losses***

The Group applies a three-stage approach to measure the ECL as described below:

#### Stage 1: 12-month ECL

The Group measures loss allowances at an amount equal to 12-month ECL on financial assets where there has not been a 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 its credit risk rating is equivalent to the globally understood definition of 'investment grade'.

#### Stage 2: Lifetime ECL – not credit impaired

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

#### Stage 3: Lifetime ECL – credit impaired

The Group measures loss allowances on financial assets determined as a credit impaired based on an objective evidence on impairment at an amount equal to lifetime ECL.

Lifetime ECL is ECL that result from all possible default events over the remaining expected life of a financial instrument. The 12 month ECL is the portion of lifetime expected credit loss that result from default events that are possible within the 12 months after the reporting date. Both lifetime ECL and 12 month ECL 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 of impairment***

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

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 credit 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 ECL*

ECL is the probability weighted estimate of credit losses and is 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, forward looking macroeconomic scenarios as well as other factors.

### *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 for financial assets carried at amortised cost. In the case of debt instruments measured at FVOCI, the Group recognises the ECL charge in the consolidated statement of profit or loss and a corresponding amount is recognised in other comprehensive income with no reduction in the carrying amount of the financial asset in the consolidated statement of financial position.

### **Policy applicable before 1 January 2018**

#### *Provisions for credit losses in accordance with the CBK instructions*

The Group is required to calculate provisions for credit losses on financing receivables in accordance with the CBK instructions with respect to financing receivables and the calculation of provisions. Financing receivables 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 financing receivable 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 financing receivables 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 provision
Watch list	Irregular for a period up to 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.

Minimum general provisions of 1% on cash facilities and 0.5% on non-cash facilities are made on all applicable financing receivables (net of certain restricted categories of collateral) which are not subject to specific provisioning.

*Hedge accounting*

The general hedge accounting requirements of IFRS 9 retain the three types of hedge accounting mechanisms in IAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify as hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, changes have been introduced to the effectiveness test and has been replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is no longer required. The hedging requirements of IFRS 9 did not have a significant impact on Group's consolidated financial statements.

**Transition**

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below:

- a. Comparative periods have not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of IFRS 9 are recognised in retained earnings and respective reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.
- b. The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
  - The determination of the business model within which a financial asset is held;
  - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL;
  - The designation of certain investments in equity instruments not held for trading as at FVOCI; and
  - If a debt instrument had low credit risk at the date of initial application of IFRS 9, then the Group has assumed that credit risk on the asset had not increased significantly since its initial recognition.

*Impact of Adopting IFRS 9*

The impact of this change in accounting policy as at 1 January 2018 has been to increase the fair value reserve by KD 1,122 thousand, and to increase the retained earnings by KD 915 thousand as follows:

	Fair value reserve KD'000	Retained earnings KD'000
Closing balance under IAS 39 at 31 December 2017 (restated)	(214)	559
Impact on reclassification and re-measurement:		
Investments in financial instruments (funds and equity) from available-for-sale to FVTPL	135	2,541
Investments in financial instruments (equity) from available-for-sale to FVOCI	535	-
Total impact of reclassification and re-measurement on the opening balance	670	2,541
Impact on recognition of Expected Credit Losses (ECL) on financial assets:		
ECL under IFRS 9 for investments in debt instruments (Sukuk) from available-for-sale to FVOCI	452	(452)
ECL under IFRS 9 for financial assets at amortised cost (placements with banks)	-	(322)
ECL under IFRS 9 for financing receivables	-	(852)
Total impact of ECL on the opening balance	452	(1,626)
<b>Total impact on IFRS 9 application at 1 January 2018</b>	<b>1,122</b>	<b>915</b>
<b>Opening balance under IFRS 9 as at 1 January 2018</b>	<b>908</b>	<b>1,474</b>

*Classification of financial assets on the date of initial application of IFRS 9*

The following table shows reconciliation of original measurement categories and carrying value in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Group's financial assets as at 1 January 2018.

	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39 KD'000	Re-measurements ECL KD'000	Re-measurements Others KD'000	New carrying amount under IFRS 9 KD'000
<b>Financial assets</b>						
Cash and balances with banks	Loans and receivables	Amortised Cost	13,201	-	-	13,201
Placements with banks and the CBK	Loans and receivables	Amortised Cost	246,484	(322)	-	246,162
Financing receivables	Loans and receivables	Amortised Cost	1,263,322	(852)	-	1,262,470
Investment securities – Sukuk	AFS	FVOCI	140,140	-	-	140,140
Investment securities – funds and other securities (unquoted)	AFS	FVTPL	20,927	-	2,676	23,603
Investment securities – Unquoted equity	AFS	FVOCI	4,098	-	535	4,633
Investment securities – Quoted equity	AFS	FVTPL	756	-	-	756
Other assets	Loans and receivables	Amortised Cost	23,347	-	-	23,347
<b>Total financial assets</b>			<b>1,712,275</b>	<b>(1,174)</b>	<b>3,211</b>	<b>1,714,312</b>

Adoption of IFRS 9 did not result in any change in classification or measurement of financial liabilities.

The following table reconciles the closing impairment allowance for financial assets in accordance with IAS 39 as at 31 December 2017 to the opening ECL allowance determined in accordance with IFRS 9 as at 1 January 2018.

	Impairment allowance under IAS 39 at 31 December 2017 KD'000	Re-measurements KD'000	ECL under IFRS 9 at 1 January 2018 KD'000
Investment in financial instruments (Sukuk) from available for sale to FVOCI	-	452	452
Financial assets at amortised cost	20,376	1,174	21,550
<b>Total ECL</b>	<b>20,376</b>	<b>1,626</b>	<b>22,002</b>

Other amendments to IFRSs which are effective for annual accounting period starting from 1 January 2018 did not have any material impact on the accounting policies, financial position or performance of the Group.

### 2.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE

Standards and amendments to standards issued but not effective up to the date of issuance of the Group's consolidated financial statements which are relevant to the Group are listed below. The Group intends to adopt those standards when they become effective.

#### *IFRS 16 - Leases*

In January 2016, the IASB issued IFRS 16 'Leases' with an effective date of annual periods beginning on or after 1 January 2019 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17.

The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the financing expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 results in lessees accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases are currently accounted for under IAS 17 'Leases'. Lessees will recognise a 'right of use' asset and a corresponding financial liability on the consolidated statement of financial position. The asset will be amortised over the length of the lease and the financial liability measured at amortised cost. The Group is in the process of assessing the impact of adopting IFRS 16 on the Group's consolidated financial statements.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

The Group plans to adopt the new standard on the required effective date but does not expect any significant impact of this standard on its consolidated financial statements.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its wholly owned special purpose vehicles (investees which are controlled by the Bank). Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

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

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

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a wholly owned special purpose vehicle begins when the Group obtains control over the wholly owned special purpose vehicle and ceases when the Group loses control of the wholly owned special purpose vehicle. Assets, liabilities, income and expenses of a wholly owned special purpose vehicle acquired or disposed off during the year are included in the Group's consolidated financial statements from the date the Group gains control until the date the Group ceases to control the wholly owned special purpose vehicle.

When necessary, adjustments are made to the financial information of wholly owned special purpose vehicles to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a wholly owned special purpose vehicle, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a wholly owned special purpose vehicle, it derecognises the related assets, liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment is de-recognised at fair value at the date of loss of control.

The wholly owned special purpose vehicles of the Bank are as follows:

Name of company	Principal activities	Country of incorporation	Effective interest as at 31 December 2018	Effective interest as at 31 December 2017
Abyat Real Estate Company L.L.C.	Real Estate	Oman	100%	100%
Themar Al Omania Company L.L.C.	Real Estate	Oman	100%	100%
Al Kout Holdings Limited	Real Estate	Jersey	100%	100%
Warba Tier 1 Sukuk Limited	Financial Securities	Cayman Islands	100%	100%

## Financial instruments

### *Date of recognition*

Financial assets and liabilities, with the exception of financing receivable and depositors' accounts, are initially recognised on the trade date, i.e., the date that the Group becomes a party to the contractual provisions of the instrument. This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Financing to customers are recognised when funds are transferred to the customers' accounts. The Group recognises depositors' accounts when funds are transferred to the Group.

### *Initial measurement of financial instruments*

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value except in the case of financial assets and liabilities recorded at FVTPL, transaction costs are added to, or subtracted from, this amount.

### *Day 1 profit or loss*

When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Group recognises the difference between the transaction price and fair value in the investment income. In those cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in profit or loss when the inputs become observable, or when the instrument is derecognised.

### *Determining the classification and measurement of financial assets*

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

#### 1. Cash and cash equivalents

For purposes of the consolidated statement of cash flows, cash and cash equivalents comprise "cash and balances with commercial banks and the CBK" and "placements with banks and the CBK whose original maturity is within 3 months". Cash and cash equivalents are carried at amortised cost using effective profit rate.

#### 2. Placement with banks and financing receivables

These are financial assets with fixed or determinable payments that are not quoted in an active market. The Group offers Sharia'h compliant products and services only, such as Wakala, Murabaha and Ijara:

Wakala is an agreement whereby the Group provides a sum of money to a customer under an agency agreement, who invests it according to specific conditions in return for a fee. The customer is obliged to return the amount

in case of default, negligence or violation of any terms and conditions of the Wakala.

Murabaha is a sale agreement for commodities and real estate to “a promise to buy” customer, at a price comprising of cost and an agreed profit, after the Group has acquired the asset.

Ijara is an agreement whereby the Group (lessor) purchases or constructs an asset for lease according to the customer’s request (lessee), based on a promise to lease the asset for a specific period and against certain rent installments. Ijara could end by transferring the ownership of the asset to the lessee.

Placement with banks, financing receivables are stated in the consolidated statement of financial position at amortised cost using the effective profit method less provision for impairment. The amount payable will be paid on installments or on a deferred basis.

### **iii. Financial investments**

Group’s financial investments consist of investment in Sukuk, equity securities, funds and other securities. Sukuk and unquoted equity securities were classified as financial assets at fair value through other comprehensive income. Quoted equity securities, funds (unquoted) and other securities (unquoted) were classified as financial assets as FVTPL.

### **iv. Financial Assets Available-for-sale (AFS) – Policy applicable before 1 January 2018**

Available-for-sale investments included equity investments and debt instruments (i.e. Sukuk). Equity investments classified as available-for-sale are those, which are neither classified as held for trading nor designated at fair value through profit or loss. Debt instruments in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available-for-sale investments are subsequently measured at fair value with unrealized gains or losses recognised in other comprehensive income and included in the fair value reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the consolidated statement of profit or loss, or the investment is determined to be impaired, when the cumulative loss is reclassified from the fair value reserve to the consolidated statement of profit or loss. Profit earned, whilst holding the available-for-sale investments, is reported as investment income (using the effective profit rate method of debt instruments).

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if the management has the ability and intention to hold the assets for foreseeable future or until maturity.

#### *Financial liabilities other than at fair value through profit or loss*

These financial liabilities are subsequently measured at amortised cost using the effective profit method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective profit rate.

Due to banks and other financial institutions, depositors’ accounts and other liabilities are classified as “financial liabilities other than at fair value through profit or loss”.

#### *Financial guarantees*

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptance. Financial guarantees are initially recognised in the consolidated financial statements at fair value, being the premium received, in other liabilities. Subsequent to initial recognition, the Group’s liability

under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the statement of profit or loss, and from 1 January 2018 the higher of ECL under IFRS 9 according to the CBK guidelines, and the provisions required by the CBK.

### ***De-recognition of financial assets and financial liabilities***

A financial asset (or where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- The rights to receive cash flows from the asset have expired, or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same financier on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the consolidated statement of profit or loss.

### *De-recognition due to substantial modification or terms and conditions*

The Group derecognises a financial asset, such as financing receivables, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new finance, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised financing receivables are classified as Stage 1 for ECL measurement purposes, unless they are deemed to be credit impaired.

When assessing whether or not to derecognise a financing receivable, amongst others, the Group considers the following factors:

- Change in currency of the financing
- Introduction of an equity instrument feature
- Change in counterparty

If the modifications are such that, the instrument would no longer meet the SPPP criterion

If the modifications do not result in cash flows that are substantially different, they result in derecognition. Based on the change in cash flows discounted at original effective profit rate, the Group records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

*Offsetting*

Financial assets and financial liabilities are only offset and the net amount reported in the consolidated financial position when there is a legally enforceable right to set off the recognised amounts and the Group intends to settle on a net basis so as to realize the assets and liabilities simultaneously.

**Derivative financial instruments and hedge accounting**

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

Beginning 1 January 2018, the documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge effectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

There is 'an economic relationship' between the hedge item and the hedging instrument.

The effect of the credit risk does not 'dominate the value changes' that result from that economic relationship; and

The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

*Cash flow hedges*

The cash flow hedges hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability, a highly probable transaction or foreign exchange risks within an unrecognised firm commitment.

The effective portion of the gain or loss on the hedging instrument is recognised in the consolidated statement of other comprehensive income, while any ineffective portion is recognised immediately in the consolidated statement of profit or loss. The cash flow hedge reserve is adjusted to the lower of cumulative gain or loss on the hedging instrument and the cumulative changes in fair value of the hedged item.

When a hedging instrument expires, is sold, terminated, exercised, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss that has been recognised in the consolidated statement of other comprehensive income at that time remains in the consolidated statement of other comprehensive income and is recognised when the hedged forecast transaction is ultimately recognised in the consolidated statement of profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in the consolidated statement of other comprehensive income is immediately transferred to the consolidated statement of profit or loss.

**Incorporation of forward looking information**

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The Group has performed historical analysis and identified the key economic variables impacting credit risk and ECL. Relevant macro-economic adjustments are applied to capture variations from economic scenarios. These reflect reasonable and supportable forecasts of future macro-economic conditions that are not captured within the base ECL calculations. Macro-economic factors taken into consideration include, but are not limited to, gross

domestic product, commodity price index and equity price index and require an evaluation of both the current and forecast direction of the macro-economic cycle. Incorporating forward-looking information increases the degree of judgement required as to how changes in these macro-economic factors will affect ECL. The methodologies and assumptions including any forecasts of future economic conditions are reviewed regularly.

#### *Renegotiated financing receivables*

In the event of a default, the Group seeks to restructure financing to customers rather than take possession of collateral. This may involve extending the payment arrangements and the agreement of new financing conditions. When the financing to customers has been renegotiated or modified but not derecognised, any impairment is measured using the original effective yield method as calculated before the modification of terms. Management continually reviews renegotiated financing 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.

### **Impairment of financial assets**

Policy applicable before 1 January 2018

The Group assesses at each reporting date whether there is any objective evidence that an individually significant financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets are impaired if and only if, there is objective evidence of impairment as a result of one or more loss events that has occurred after the initial recognition of the financial asset (an incurred 'loss event') and that the loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets. For the purpose of assessing impairment, the financial assets are grouped at the lowest levels for which there are separately identifiable cash flows.

With respect to financing receivables, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective profit rate.

The carrying amount of the asset is reduced by the amount of impairment and the amount of impairment loss is recognised in the consolidated statement of profit or loss.

Financial guarantees and letter of credit are assessed and provisions are made in a similar manner as for financing receivables.

In addition, in accordance with the CBK instructions, a minimum general provision on all financing facilities net of certain categories of collateral, to which the CBK instructions are applicable and not subject to specific provision, is made.

For available-for-sale equity investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired. Objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is to be evaluated against

the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of profit or loss is removed from fair value reserve and recognised in the consolidated statement of profit or loss. Impairment losses on equity investments are not reversed through the consolidated statement of profit or loss; increases in their fair value after impairment are recognised directly in other comprehensive income.

Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less cost of sale and value in use.

### **Write-offs**

The Group's accounting policy under IFRS 9 remains the same as it was under IAS 39. Financial assets are written off either partially or in their entirety. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to expected credit losses.

### **Investments in joint venture**

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The Group's investments in its joint ventures are accounted for using the equity method.

Under the equity method, the investment in joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the joint venture since the acquisition date. Goodwill relating to the joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The consolidated statement of profit or loss reflects the Group's share of the results of operations of the joint venture. Any change in other comprehensive income of those investees is presented as part of the Group's other comprehensive income. In addition, when there has been a change recognised directly in the equity of the investee, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the joint venture are eliminated to the extent of the interest in the joint venture.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in joint venture is impaired.

If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value, then recognises the loss as 'Impairment loss on joint venture' in the consolidated statement of profit or loss.

Upon loss of significant influence over the joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the joint venture upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in consolidated statement of profit or loss.

### **Investment properties**

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the consolidated statement of profit or loss in the period in which they arise. Fair values are determined based on an annual evaluation performed by accredited independent valuers using recognised valuation techniques.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the consolidated statement of profit or loss in the year of derecognition.

### **Property and equipment**

Property and equipment is stated at historical cost less accumulated depreciation and any impairment in value. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the consolidated statement of profit or loss during the financial year in which they are incurred.

Land is not depreciated. Depreciation of other property and equipment items is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives, as follows:

- Buildings 20-40 years
- Furniture, fixtures and equipment 3-5 years

An item of property, and equipment and any significant part initially recognised is derecognised upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of profit or loss when the asset is derecognised.

The residual values, useful lives and methods of depreciation of property and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

Lands do not have a specified useful life and accordingly they are not depreciated.

### **Impairment of non-financial assets**

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and then its recoverable amount is assessed as part of the cash-generating unit to which it belongs. Where the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or cash-generating

unit). In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by available fair value indicators.

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. If such indication exists, the recoverable amount is asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. The recoverable amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated statement of profit or loss. After such a reversal, the depreciation charge is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

### **End of service indemnity**

The Group provides for end of service benefits to all of its employees as per the Kuwaiti Labor Law. The entitlement to the benefits is based upon the employee's final salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

### **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 recognized:

1. Placement and financing income is income from Wakala, Murabaha and Ijara investments and is determined by using the effective profit method. The effective profit method is a method of calculating the amortised cost of a financial asset and of allocating the financing income over the relevant period.
2. Rental income from investment properties is recognized on an accrual basis.
3. Dividend income is recognized when the right to receive payment is established.
4. Fee and commission income is recognized at the time the related services are provided.

### **Foreign currency**

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded at the spot rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the spot rate of exchange ruling at the reporting date. Any resultant gains or losses are recognised in the consolidated statement of profit or loss.

Non-monetary assets and liabilities in foreign currencies that are stated at fair value are translated to respective entity's functional currency at the foreign exchange rates ruling on the dates that the values were determined. In case of non-monetary assets whose change in fair values are recognised directly in other comprehensive income, foreign exchange differences are recognised directly in other comprehensive income and for non-monetary assets whose change in fair value are recognised directly in the consolidated statement of profit or loss and within debt instruments, foreign exchange differences are recognised in the consolidated statement of profit or loss.

As at the reporting date, the assets and liabilities of wholly owned special purpose vehicles are translated into the Bank's presentation currency (KD) at the rate of exchange ruling on the reporting date, and their statement of profit or loss are translated at the average exchange rates for the year. Exchange differences arising on translation are taken directly to other comprehensive income. On disposal of a foreign wholly owned special purpose vehicle, the deferred cumulative amount recognised in other comprehensive income relating to that

particular wholly owned special purpose vehicle is recognised in the consolidated statement of profit or loss.

Any goodwill or fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the respective wholly owned special purpose vehicles and translated at the rate of exchange ruling on the reporting date.

### **Taxation**

#### *National Labour Support Tax (NLST)*

The Group calculates the NLST in accordance with Law No. 19/2000 and the Ministry of Finance resolution No. 24/2006 at 2.5% of taxable profit for the year. As per the law, cash dividends from listed companies which are subjected to NLST has to be deducted from the profit for the year.

#### *Provision of Kuwait Foundation for the Advancement of Sciences (KFAS)*

The Group calculates the contribution to KFAS at 1% of profit for the year in accordance with the modified calculation based on the Foundation's Board of Directors resolution, which states that the transfer to statutory reserve should be excluded from profit for the year when determining the contribution.

#### *Zakat*

Contribution to Zakat is calculated at 1% of the Group of the Group in accordance with the Ministry of Finance resolution No. 58/2007 effective from 10 December 2007.

### **Segment information**

A segment is a distinguishable component of the Group that engages in business activities from which it earns revenue and incurs costs. The operating segments are used by the management of the Group to allocate resources and assess performance. Operating segments exhibiting similar economic characteristics, products and services, classes of customers where appropriate are aggregated and reported as reportable segments.

### **Provisions**

Provisions are recognised when, as a result of past events, it is probable that an outflow of economic resources will be required to settle a present, legal or constructive obligation and the amount can be reliably estimated.

### **Contingent assets and liabilities**

Contingent assets are not recognised in the consolidated financial statements, but are disclosed when an inflow of economic benefit is probable.

Contingent liabilities are not recognised in the consolidated financial statements, but are disclosed unless the possibility of an outflow of resources embodying economic benefit is remote.

### **Judgments**

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 on the amounts recognised in the consolidated financial statements:

#### *Classification of financial assets - applicable from 1 January 2018*

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.

*Impairment of financial assets available-for-sale - applicable before 1 January 2018*

The Group treats investments available-for-sale as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is “significant” or “prolonged” requires considerable judgment and involves evaluating factors including industry and market conditions, future cash flows and discount factors.

*Fair value measurement*

When the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Any changes in these estimates as well as the use of different, but equally reasonable estimates may have an impact on their carrying amounts.

Considerable judgement by management is required in the estimation of the fair value of the assets acquired and liabilities assumed as a result of business combination including intangibles and contingent liabilities.

*Classification of property*

Management decides on acquisition of a real estate property whether it should be classified as investment property or property and equipment. The Group classifies property as investment property if it is acquired to generate rental income or for capital appreciation or for an undetermined future use.

**Estimation uncertainty**

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

*Impairment of investment in joint ventures*

The Group calculates the amount of impairment as the difference between the recoverable amount and its carrying value if there is any objective evidence that the investment in joint ventures are impaired. The estimation of recoverable amount requires the Group to make an estimate of the expected future cash flows and selection of appropriate inputs for valuation.

*Impairment of financial instruments*

The measurement of impairment losses both under IFRS 9 and IAS 39 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

*Impairment of financial instruments - applicable from 1 January 2018*

The Group's ECL calculations are outputs of complex model with a number of underlying assumptions regarding the choice of variable inputs and their dependencies. Elements of the ECL model that are considered accounting judgements and estimates include:

- The Group's internal credit rating model, which assigns PDs to the individual grades;
- The Group's criteria for assessing if there has been a significant increase in credit risk so allowances for financial assets should be measured on a lifetime ECL basis and qualitative assessment;

- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including various formulas and choice of inputs;
- Determination of associations between macroeconomic scenarios and, economic inputs, and the effect on PDs, EADs and LGDs; and
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

The Group has the policy to regularly review its model in the context of actual loss experience and adjust when necessary.

*Impairment losses on financing receivables – applicable before 1 January 2018*

The Group reviews its financing receivables on a regular basis to assess whether an impairment loss should be recorded in the consolidated statement of profit or loss. In particular, considerable judgment 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.

*Valuation of unquoted equity investments, unquoted funds and other securities*

Valuation of unquoted equity investments, unquoted funds and other securities is normally based on one of the following:

- recent arm's length market transactions;
- current fair value of another instrument that is substantially the same;
- an earnings multiple;
- the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; or
- other valuation models.

The determination of the cash flows and discount factors for unquoted equity investments, unquoted funds and unquoted other securities requires significant estimation. There are a number of investments where this estimation cannot be reliably determined.

### 3. CASH AND CASH EQUIVALENTS

	2018 KD'000	2017 KD'000
Cash	3,766	1,700
Current account with the CBK	9,254	6,206
Current accounts with commercial banks	6,718	5,295
Cash and balances with banks	19,738	13,201
Placements with the CBK whose original maturity is within 3 months	60,125	17,053
Placements with banks whose original maturity is within 3 months	149,786	150,832
Cash and cash equivalents	<u>229,649</u>	<u>181,086</u>

Placements with banks represent placements placed with highly reputed and good credit rating banks in accordance with Wakala and Murabaha agreements.

### 4. FINANCING RECEIVABLES

Financing receivables mainly comprise of facilities extended to the customers of the Group in the form of Murabaha and Ijara contracts. Wherever necessary, financing receivables are secured by acceptable forms of collateral to mitigate the related credit risk.

	2018 KD'000	2017 KD'000
Murabaha receivables	1,495,594	1,181,210
Ijara receivables	222,979	165,243
Others	12,673	8,007
Less: deferred profit	(94,366)	(70,762)
Financing receivables before provision for impairment	1,636,880	1,283,698
Less: provision for impairment	-	(20,376)
Less: expected credit losses	(30,338)	-
	<u>1,606,542</u>	<u>1,263,322</u>

Further analysis of financing receivables, net of deferred profit, based on customer type is given below:

	2018 KD'000	2017 KD'000
Corporate	1,028,352	809,004
Individuals	608,528	474,694
Financing receivables before provision for impairment	1,636,880	1,283,698
Less: provision for impairment	-	(20,376)
Less: expected credit losses	(30,338)	-
	<u>1,606,542</u>	<u>1,263,322</u>

An analysis of changes in the gross carrying amount and the corresponding expected credit losses in relation to financing receivables are as follows:

2018	Stage 1 KD '000	Stage 2 KD '000	Stage 3 KD '000	Total KD '000
Financing receivables gross carrying value as at 1 January 2018 under IFRS 9	1,213,046	52,102	18,550	1,283,698
New assets originated or purchased net of repayments during the year	355,521	1,166	204	356,891
Transfer between stages	39,436	(44,715)	5,279	-
Amounts written off net of exchange Movements	-	(706)	(3,003)	(3,709)
At 31 December 2018	<u>1,608,003</u>	<u>7,847</u>	<u>21,030</u>	<u>1,636,880</u>

2018	Stage 1 KD '000	Stage 2 KD '000	Stage 3 KD '000	Total KD '000
Expected credit losses as at 1 January 2018 under IFRS 9	7,650	2,580	10,146	20,376
Charge during the year (Note 16)	11,637	504	211	12,352
Impact due to transfer between stages	(8,132)	(1,761)	9,893	-
Amounts written off net of exchange movements	-	(56)	(2,334)	(2,390)
At 31 December 2018	<u>11,155</u>	<u>1,267</u>	<u>17,916</u>	<u>30,338</u>

The increase in ECLs of the lending portfolio was driven by an increase in the gross size of the portfolio and movements between stages as a result of increases in credit risk and a deterioration in economic conditions.

An analysis of the charge for expected credit losses for the year 2018 is as follows:

2018	12m ECL Stage 1 KD 000's	Life time ECL Stage 2 KD 000's	Life time ECL Stage 3 KD 000's	Total ECL charge KD 000's
Cash facilities (Note 16)	11,638	503	211	12,352
Non cash facilities (Note 16)	43	(6)	3,753	3,790
Charge for Expected credit losses for credit Facilities	<u>11,681</u>	<u>497</u>	<u>3,964</u>	<u>16,142</u>

The expected credit losses calculated as per IFRS 9 according to the CBK guidelines as at 31 December 2018 amounted to KD 34,642 thousand, which is higher than provisions computed as required by the CBK guidelines amounting to KD 31,638 thousand.

Movement in provision for impairment for the year ended 31 December 2017 is as follows:

	2017		
	2017 Specific provision KD'000	General provision KD'000	Total KD'000
<b>Cash facilities</b>			
Balance at 1 January	2,696	9,998	12,694
Provision charged during the year (Note 16)	6,811	4,962	11,773
Written off balances during the year	(4,078)	-	(4,078)
Foreign currency movement	24	(37)	(13)
Balance at 31 December	5,453	14,923	20,376
<b>Non-cash facilities</b>			
Balance at 1 January	-	251	251
Provision charged during the year (Note 16)	-	263	263
Balance at 31 December	-	514	514
<b>Total facilities</b>			
Balance at 1 January	2,696	10,249	12,945
Provision charged during the year	6,811	5,225	12,036
Written off balances during the year	(4,078)	-	(4,078)
Foreign currency movement	24	(37)	(13)
Balance at 31 December	5,453	15,437	20,890

The available provision balance on non-cash facilities of KD 4,304 thousand (2017: KD 514 thousand) is included under other liabilities.

The fair values of financing receivables do not materially differ from their respective carrying values.

## 5. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018 KD'000	2017 KD'000
Quoted equity instruments	7,159	-
Funds (unquoted)	26,430	-
Other securities (unquoted)	7,911	-
	<u>41,500</u>	<u>-</u>

On initial application of IFRS 9, the Group's management re-classified its investments in quoted equity instruments, unquoted funds and unquoted other securities from available-for-sale investments to financial assets at fair value through profit or loss (Note 7). The impact resulting from adoption of IFRS 9 has been disclosed in Note 2.2.

The hierarchy for determining and disclosing the fair values of financial instruments by valuation techniques are presented in Note 23.

## 6. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2018 KD'000	2017 KD'000
Quoted Sukuk	141,093	-
Unquoted Sukuk	2,000	-
Unquoted equity instruments	5,492	-
	<u>148,585</u>	<u>-</u>
Expected credit losses	<u>953</u>	<u>-</u>

On initial application of IFRS 9, the Group's management re-classified its investments in quoted Sukuk, unquoted Sukuk, and unquoted equity instruments from available-for-sale investments to financial assets at fair value through other comprehensive income (Note 7). The impact resulting from adoption of IFRS 9 has been disclosed in Note 2.2.

During the year ended 31 December 2018, the management has performed a review of the financial assets at fair value through other comprehensive income to assess the Expected Credit Losses. Based on the assessment, the management has recognized expected credit losses of KD 501 thousand in the consolidated statement of profit or loss for the year (Note 16).

The hierarchy for determining and disclosing the fair values of financial instruments by valuation techniques are presented in Note 23.

Investments in debt instruments are subject to Expected Credit Losses. An analysis of changes in the gross carrying amount and the corresponding Expected Credit Losses in relation to investment in debt instruments is as follows:

2018	Stage 1 KD'000	Stage 2 KD'000	Stage 3 KD'000	Total KD'000
Gross carrying amount as at 1 January 2018	140,140	-	-	140,140
Assets purchased/derecognised during the year -Net	2,241	-	-	2,241
Transfer between stages	(5,844)	5,844	-	-
Exchange movements	682	30	-	712
At 31 December 2018	<u>137,219</u>	<u>5,874</u>	<u>-</u>	<u>143,093</u>

	Stage 1 KD'000	Stage 2 KD'000	Stage 3 KD'000	Total KD'000
ECL allowance as at 1 January 2018	452	-	-	452
Impact due to purchase/de-recognition	356	-	-	356
Impact due to transfer between stages	(194)	194	-	-
Re-measurement of ECL	145	-	-	145
At 31 December 2018	<u>759</u>	<u>194</u>	<u>-</u>	<u>953</u>

## 7. AVAILABLE-FOR-SALE INVESTMENTS

	2018 KD'000	2017 KD'000
Quoted Sukuk	-	138,140
Quoted equity instruments	-	756
Unquoted Sukuk	-	2,000
Unquoted equity instruments	-	4,098
Funds and other securities (unquoted)	-	20,927
	<u>-</u>	<u>165,921</u>

As of 31 December 2017, all available for sale investments were recorded at fair value except for unquoted investments with a carrying value of KD 25,025 thousand, which are recorded at cost less impairment.

During prior year ended 31 December 2017, the management has performed a review of the financial assets to assess whether impairment has occurred in the value of these financial assets. Based on the assessment, management has recorded an impairment loss of KD 215 thousand (Note 16) in the consolidated statement of profit or loss for the year in respect of available for sale investments.

On initial application of IFRS 9, the Group's management re-classified its investments in quoted equity instruments, unquoted funds and unquoted other securities from available-for-sale investments to financial assets at fair value through profit or loss (Note 5) and its investments in quoted and unquoted Sukuk, and unquoted equity instruments from available-for-sale investments to financial assets at fair value through other comprehensive income (Note 6). The impact resulting from adoption of IFRS 9 has been disclosed in Note 2.2.

## 8. INVESTMENTS IN JOINT VENTURES

The Group exercises "joint control" over the investees, whereby all decisions relating to these joint ventures' activities require "unanimous consent" from all parties of the joint ventures.

The movement in the carrying value of joint ventures is as follows:

	2018 KD'000	2017 KD'000 (Restated)
As at 1 January	31,660	-
Additions	19,853	31,686
Share of results	3,180	491
Dividends received	(2,331)	(392)
Foreign currency translation adjustment	136	(125)
As at 31 December	<u>52,498</u>	<u>31,660</u>

The joint ventures have capital commitments amounting to KD 5,333 thousand as at 31 December 2018 (2017: Nil).

The following table illustrates summarised financial information of the Group's investment in the joint ventures:

	2018 KD'000	2017 KD'000 (Restated)
Joint ventures' statement of financial position:		
Current assets	418	1,656
Non-current assets	52,101	30,922
Current liabilities	(21)	(918)
Net assets	<u>52,498</u>	<u>31,660</u>
Profit for the year	<u>3,180</u>	<u>491</u>
Revenues	<u>3,397</u>	<u>335</u>

## 9. INVESTMENT PROPERTIES

	2018 KD'000	2017 KD'000 (Restated)
Balance at 1 January	24,611	15,632
Additions	-	8,891
Unrealised loss on change of fair value	(1,207)	(669)
Foreign currency translation adjustment	(537)	757
Balance at 31 December	<u>22,867</u>	<u>24,611</u>

The fair values of the properties are based on valuations performed by accredited independent valuers, who are specialists in valuing these types of investment properties.

	2018 KD'000	2017 KD'000 (Restated)
Rental income from investment properties	1,468	1,234
Direct operating expenses	(253)	(199)
Net rental income from investment properties (Note 14)	<u>1,215</u>	<u>1,035</u>

The Group has no restrictions on the realisability of its investment properties and no contractual obligations to either purchase, construct or develop investment properties or for repairs, maintenance and enhancements.

For the purpose of measuring fair value, the income capitalisation approach is used. The determination of the fair value using the income capitalisation approach is based on the normal operating income arising from the property which is divided over the capitalization rate (discount).

Investment properties amounting to KD 22,867 thousand (2017: KD 24,611 thousand) are classified under level 3 of the fair value hierarchy.

## 10. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

Due to banks and other financial institutions represents deposits received from banks and other financial institutions under Wakala and Murabaha contracts.

## 11. DEPOSITORS' ACCOUNTS

Depositors' accounts of the Group comprise of the following:

- 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 Group guarantees to pay the related balances on demand. Accordingly, these deposits are considered Qard Hasan from depositors to the Group.

- Investment deposits

These include Mudaraba, Murabaha and Wakala deposits, which have fixed maturity as specified in the term of the contract except for investment saving accounts which are valid for an unlimited period.

## 12. EQUITY

### *Share capital and share premium*

The extraordinary general assembly meeting of the shareholders of the Bank held on 31 October 2018 approved an increase in the authorized, issued and paid share capital by 50% by offering 500,000 thousand rights shares for subscription to the Bank's shareholders for 180 fils per share (100 fils par value and 80 fils share premium). The increase in share capital has been registered in the commercial register on 4 November 2018 with registration number 334402. Accordingly, the authorised, issued and fully paid-up share capital at 31 December 2018 comprises of 1,500,000 thousand shares (31 December 2017: 1,000,000 thousand shares) of a par value of 100 fils each.

### *Share capital*

	2018 KD'000	2017 KD'000
Authorized, issued and fully paid : 1,500,000 thousand (2017: 1,000,000 thousand) shares with a par value of 100 fils each	<u>150,000</u>	<u>100,000</u>

### *Statutory reserve*

In accordance with the Companies' Law, and the Bank's Memorandum of Incorporation and Articles of Association, a minimum of 10% of the profit for the year before contribution to KFAS, NLST, Zakat and Directors' remunerations shall be transferred to the statutory reserve. The Annual General Assembly of the Bank may resolve to discontinue such transfer when the reserve exceeds 50% of the issued share capital. The reserve may only be used to offset losses or enable the payment of a dividend up to 5% of paid-up share capital in years when profit is not sufficient for the payment of such dividend due to absence of distributable reserves. Any amounts deducted from the reserve shall be refunded when the profits in the following years suffice, unless such reserve exceeds 50% of the issued share capital.

An amount of KD 1,353 thousand was transferred to the statutory reserve during the current year (2017: Nil).

### Voluntary reserve

In accordance with the Bank's Articles of Association and Memorandum of Incorporation, a percentage is deducted for voluntary reserve based on proposal of the Board of Directors and subject to approval of the Annual General Assembly. Such transfers may be discontinued by a resolution of the ordinary general assembly upon a proposal by the Board of Directors and the CBK approval.

In accordance with the Companies' Law, a maximum of 10% of the profit for the year before contribution to KFAS, NLST, Zakat and Directors' remuneration, is eligible to be transferred to the voluntary reserve by a resolution of the Annual General Assembly upon a proposal by the Board of Directors in order to accumulate a voluntary reserve allocated for purposes specified by the Annual General Assembly.

Based on the proposal of the Board of Directors, no transfer has been made to the voluntary reserve in the current year and prior year.

### 13. PERPETUAL TIER 1 SUKUK

On 14 March 2017, the Bank, through a Sharia's compliant Sukuk arrangement, issued Tier 1 Sukuk amounting to USD 250 million. Tier 1 Sukuk is a perpetual security in respect of which there is no fixed redemption date and constitutes direct, unsecured, subordinated obligations (senior only to share capital) of the Bank subject to the terms and conditions of the Mudaraba Agreement. The Tier 1 Sukuk is listed on the Irish Stock Exchange and NASDAQ Dubai and callable by the Bank after five-year period ending 14 March 2022 (the "First Call Date") or any profit payment date thereafter subject to certain redemption conditions.

The net proceeds of Tier 1 Sukuk are invested by way of Mudaraba with the Bank (as Mudareb), on an unrestricted co-mingling basis, by the Bank in its general business activities carried out through the general Mudaraba pool. Tier 1 Sukuk bears a profit rate of 6.5% per annum to be paid semi-annually in arrears until the First Call Date. After that, the expected profit rate will be reset based on then prevailing 5 years U.S Mid Swap Rate plus initial margin of 4.374% per annum.

At the Bank's sole discretion, it may elect not to make any Mudaraba distributions expected and in such event, the Mudaraba profit will not be accumulated and the event is not considered an event of default. The Bank made profit payments during the year on 12 March and 10 September 2018.

### 14. NET INVESTMENT INCOME

	2018 KD'000	2017 KD'000 (Restated)
Realised loss on sale of debt instruments at fair value through other comprehensive income	(651)	-
Realised gain on sale of available-for-sale investments	-	347
Dividend income	2,001	1,535
Sukuk income	6,118	3,500
Share of results of investments in joint ventures (Note 8)	3,180	491
Net rental income from investment properties (Note 9)	1,215	1,035
Unrealised gain on financial assets at fair value through profit or loss	77	-
Unrealised loss on change in fair value of investment properties (Note 9)	(1,207)	(669)
Other investment income	191	148
	<u>10,924</u>	<u>6,387</u>

## 15. NET FEES AND COMMISSION INCOME

Net fees and commission income includes financing syndication fees earned on the successful completion of syndicated deals by the Group amounting to KD 1,975 thousand (2017: KD 991 thousand).

## 16. PROVISION FOR IMPAIRMENT

	2018 KD'000	2017 KD'000 (Restated)
Expected credit losses for financing receivables (Note 4)	12,405	-
Expected credit losses for non-cash facilities (Note 4)	3,790	-
Expected credit losses for investments in Sukuk (Note 6)	501	-
Reversal of expected credit losses for placements with banks	(50)	-
Impairment on financing receivables (Note 4)	-	11,815
Recovery of written-off financing receivables (Note 4)	(53)	(42)
Impairment on available-for-sale investments (Note 7)	-	215
Impairment on property and equipment	466	25
Impairment on other assets	5	42
Impairment on non-cash facilities (Note 4)	-	263
	<u>17,064</u>	<u>12,318</u>

## 17. BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share are calculated by dividing net profit for the year of the Group adjusted for profit paid on Perpetual Tier 1 Sukuk by the weighted average number of shares outstanding during the year as follows:

	2018 KD'000	2017 KD'000 (Restated)
Net profit for the year (KD'000)	12,738	7,454
Less: profit payment on Perpetual Tier 1 Sukuk (KD'000)	(4,908)	(2,451)
	<u>7,830</u>	<u>5,003</u>
Weighted average number of shares outstanding ('000)	<u>1,109,652</u>	<u>1,084,615</u>
Basic and diluted earnings per share (fils)	<u>7.06</u>	<u>4.61</u>

The comparative basic and diluted earnings per share have been restated as a result of the shares issued to the shareholders of the Bank.

As there are no dilutive instruments outstanding, basic and diluted earnings per share are identical.

## 18. RELATED PARTIES

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. Balances with related parties arise from commercial transactions in the normal course of business on terms approved by the management.

### 18.1 Remuneration of the Bank's key management personnel:

Key management personnel are those individuals who have the authority and responsibility for planning and exercising power to directly or indirectly control the activities of the Bank and its employees. The Bank considers the members of the Board of Directors (and its sub-committees) and Executive Committee to be key management personnel for the purposes of IAS 24 Related Party Disclosures.

	2018 KD'000	2017 KD'000
Salaries and short-term benefits	2,166	2,048
End of service benefits	175	146
Directors' remuneration	207	166
	<u>2,548</u>	<u>2,360</u>

Board of directors' remuneration is subject to the approval of the annual general assembly meeting (AGM).

### 18.2 Transactions with Bank's Key management personnel:

The Bank enters into transactions, arrangements and agreements involving senior management and their controlled business, or close family members, in the ordinary course of business under the same commercial and market terms, profit and commission rates that apply to non-related parties.

The following table shows the total amount of transactions, which have been entered into with key management personnel for the relevant financial year which are included in the consolidated statement of financial position:

	2018 KD'000	2017 KD'000
Financing facilities	1,469	1,065
Credit cards	7	7
Depositors' accounts	706	560

The number of the board members and executive officers is as follows:

	2018	2017
Financing facilities	7	7
Credit cards	6	6
Depositors' accounts	38	16

The transactions with related parties which are included in the consolidated statement of profit or loss are as follows:

	2018 KD'000	2017 KD'000
Placements and financing income	38	94
Finance costs and distributions to depositors	49	1

### 18.3. Transactions with major shareholders and other related parties:

In addition to transactions with key management, the Bank enters into transactions with major shareholders and other entities which the Bank has direct or indirect control, including common control, joint control and significant influence.

Balances recorded in the consolidated statement of financial position are as follows:

	Outstanding balances as at			Total 31 December 2017 KD'000
	Major shareholders KD'000	Other related parties KD'000	31 December 2018 KD'000	
Finance facilities	-	-	-	23
Credit cards	-	-	-	1
Depositors' accounts	861,627	323	861,950	676,515

The number of major shareholders and other related parties is as follows:

	No. of major shareholders	No. of other related parties
2018		
Finance facilities	-	-
Credit cards	-	1
Depositors' accounts	2	47
2017		
Finance facilities	-	2
Credit cards	-	2
Depositors' accounts	2	26

Transactions with related parties recorded in the consolidated statement of profit or loss are as follows:

	Transactions values during the year ended			Total 31 December 2017
	Major shareholders	Other related parties	31 December 2018	
Placements and financing income	-	2	2	20
Finance costs and distributions to depositors	17,790	1	17,791	9,820

The above-mentioned outstanding balances arose from the ordinary course of business. The profit rates charged to, and by, related parties are at normal commercial rates. Outstanding balances at the year-end are unsecured. There have been no guarantees provided or received for any related party receivables or payables during the year ended 31 December 2018.

## 19. COMMITMENTS AND CONTINGENT LIABILITIES

	2018 KD'000	2017 KD'000
Acceptances and letters of credit	33,210	39,788
Letter of guarantees	91,209	62,865
<b>Contingent liabilities</b>	<b>124,419</b>	<b>102,653</b>
<b>Capital commitments</b>	<b>223</b>	<b>232</b>
<b>Operating lease rental commitments – the Group as a lessee</b>		
<b>Future minimum lease payments:</b>		
Within one year	1,833	1,485
Within two to five years	7,147	5,992
	<b>8,980</b>	<b>7,477</b>
<b>Operating lease rental commitments – the Group as a lessor</b>		
<b>Future minimum lease receivable:</b>		
Within one year	1,435	1,526
Within two to five years	5,944	5,976
	<b>7,379</b>	<b>7,502</b>

## 20. RISK MANAGEMENT

Risk is inherent in all activities of the Group and is managed through a process of ongoing identification, measurement, mitigation and monitoring, subject to risk appetite limits and other controls. This process of risk management is critical to the Group's financial health and continuing profitability. The Group's business generates exposure mainly to the following broad risk types from its financial transactions, use of financial instruments and its operations:

- Credit risk
- Market risk
- Liquidity risk
- Operational risk

In addition, there are other risk types that need to be monitored and controlled. This note presents information about the Group's exposure to each of the risks, the Group's framework of policies, models and quantification techniques and processes for identifying, measuring, mitigating, monitoring and managing risk, and the management of Group's capital.

### a) Risk management structure

#### Board of Directors

The Board of Directors (the 'Board') has overall responsibility for the establishment and oversight of Risk Management function. The Board has established a Board Risk Committee (the 'BRC') comprising of members from the Board, to set the framework and monitor the Bank's Risks and Control related requirements covering all risk types like credit, market, liquidity risks and operational risk. The Board Risk Committee is assisted in these functions by the Chief Risk Officer.

The Board has also established a Board Audit Committee (the 'BAC'), as required by the Central Bank of Kuwait, which, amongst other functions, is also required to monitor adherence with the Bank's Risk Management principles, policies and procedures, and for reviewing the adequacy of the Risk Management framework. The Board Audit Committee is assisted in these functions by the Chief Internal Auditor.

### ***Risk Management Group***

An independent Risk Management Group headed by the Chief Risk Officer (the 'CRO') reports to the BRC, responsible for Enterprise-wide risks, to assist the Board and BRC in carrying out the risk oversight responsibility.

Risk management policies are established to identify, quantify, control, mitigate, and analyze the risks faced by the Group to set appropriate risk limits and controls and to monitor risks and ensure adherence to the risk appetite limits. Risk management policies and systems are subject to review regularly, on an ongoing basis, to reflect changes in economic environment, market conditions, products and services offered by the Group.

#### **b) Credit risk**

Credit risk is the risk that one party to a financial instrument will fail or delay to discharge an obligation and cause the other party to incur a financial loss. This includes the risk of decline in the credit standing of the customer. While such decline does not imply default, it increases the probability of the customer defaulting. Financial instruments that create credit risk include financing receivables and commitments to extend credit and investment in debt instruments (i.e. Sukuk).

For risk management control purposes, the Group considers and consolidates all elements of credit risk exposure such as individual obligor default risk, country risk and sector risk in one measure about the riskiness of an exposure.

#### ***Credit risk management***

The Group's Board has approved Financing and Investment policies for various business groups and investment asset types. The Board has also approved the Executive Credit and Investment Committee (the 'ECIC') Charter, which is empowered for initial screening of proposals and approval within its delegated authorities. The Board has also constituted the Board Credit and Investment Committee (the 'BCIC') which by virtue of its Charter, is the next level of authority which provides guiding principles and approves the various financing and investment proposals on behalf of the Board of the Group.

The Risk Management Group provides independent opinion and assessment of risk for every financing and investment proposal presented to the approving authorities for decision making.

The Group manages its credit facilities portfolio with the objective of ensuring that it is well diversified and it earns a level of return commensurate with the risks it assumes, at the same time, seeks to ensure the quality of the credit portfolio.

In addition, the Group endeavors to manage the credit exposure by obtaining collateral where appropriate and limiting the tenor of exposure or structures that are beneficial to the overall risk profile of the Bank's credit risk exposure.

As required by the CBK, the Group has established a Provisioning Committee, at the executive level which is primarily responsible for the study and evaluation of the existing credit facilities and investments of the Group, to identify any abnormal situations and difficulties associated with a customer's position which may require the exposure to be classified as irregular, and to determine an appropriate provisioning required for impaired/potential impairment of assets and investments.

## Assessment of expected credit losses (policy applicable from 1 January 2018)

### *Definition of default and cure*

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 transferring collateral (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 management purposes

Any credit impaired or stressed facility that has been restructured during the year would also be considered as in default. The Group considers externally-rated exposures with ratings 'D' for S&P and Fitch, and 'C' for Moody's as defaulted.

The Group considers a variety of indicators that may indicate unlikelihood to pay as part of a qualitative assessment of whether a customer is in default. Such indicators include:

- breaches of covenants
- borrower having past due liabilities to public creditors or employees
- borrower is deceased

### *Significant increase in credit risk*

The Group continuously monitors all assets subject to ECL. 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. The Group applies a consistent quantitative criterion for internally and externally rated portfolio to assess significant increase in credit risk.

### *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 Moody's Risk Analyst (MRA) as its internal credit-rating engine. The MRA tool provides the ability to analyze a business and produce risk ratings. 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.

It is the Group's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Group's rating policy. The attributable risk ratings are assessed and updated regularly.

The standard 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 MRA 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.

#### *Incorporation of forward-looking information*

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

#### **Maximum exposure to credit risk without taking account of any collateral**

The following table summarizes the maximum exposure to credit risk for the components of the consolidated statement of financial position, including off-consolidated statement of financial position items. The maximum exposure is shown net of impairment, before the effect of mitigation through the use of master netting and collateral agreements, where applicable.

	Net maximum exposure	
	2018 KD'000	2017 KD'000
Balances with banks	15,972	11,501
Placements with banks and the CBK	256,486	246,484
Financing receivables	1,606,542	1,263,322
Financial assets at fair value through other comprehensive income (investment in Sukuk)	143,093	-
Available-for-sale investments (investment in Sukuk)	-	140,140
Other assets	10,227	10,187
	<b>2,032,320</b>	<b>1,671,634</b>
Acceptances and letters of credit	33,044	39,590
Letter of guarantees	87,071	62,549
<b>Total</b>	<b>120,115</b>	<b>102,139</b>
<b>Total credit risk exposure</b>	<b>2,152,435</b>	<b>1,773,773</b>

Where financial instruments are recorded at fair value, the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could give rise in the future as a result of changes in value.

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region or exposed to similar economic environment that would cause their ability to meet contractual obligations and be similarly impacted by changes in economic, political and/or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Group's performance to developments affecting similarly connected counterparties.

The maximum credit exposure to a single counterparty as at 31 December 2018 amounted to KD 47,155 thousand (2017: KD 25,595 thousand) before taking account of collateral.

Risk concentrations of the maximum exposure to credit risk

Geographical and industry sector concentrations of financial assets and off-consolidated statement of financial position items are as follows:

	2018		2017	
	Financial assets KD'000	Off-consolidated statement of financial position items KD'000	Financial assets KD'000	Off-consolidated statement of financial position items KD'000
Geographic region:				
Kuwait	1,497,728	96,941	1,305,642	96,592
Other Middle East	345,006	224	257,236	-
Rest of the World	189,586	22,950	108,756	5,547
	<u>2,032,320</u>	<u>120,115</u>	<u>1,671,634</u>	<u>102,139</u>

	2018		2017	
	Financial assets KD'000	Off-consolidated statement of financial position items KD'000	Financial assets KD'000	Off-consolidated statement of financial position items KD'000
Industry sector:				
Banks and Financial Institutions	501,754	5,809	475,665	5,417
Construction and Real Estate	694,272	58,033	551,531	58,713
Trading and Manufacturing	247,166	43,218	205,196	27,364
Other	589,128	13,055	439,242	10,645
	<u>2,032,320</u>	<u>120,115</u>	<u>1,671,634</u>	<u>102,139</u>

### Credit risk mitigation

Credit risk mitigation techniques that the Group is permitted to use are obtaining collateral where appropriate and limiting the tenor of exposure or structures that are beneficial to the Group's management of risks to an exposure.

### Credit quality per class of financial assets

The table below shows the credit quality and the maximum exposure to credit risk for the year ended 31 December 2018 based on year-end stage allocation for statement of financial position lines by class of assets. The amounts presented are gross of impairment allowances.

2018	Stage 1 KD 000's	Stage 2 KD 000's	Stage 3 KD 000's	Total KD 000's
Balances with banks	15,972	-	-	15,972
Placements with banks and the CBK	256,758	-	-	256,758
Financing receivables	1,608,077	7,824	20,979	1,636,880
Corporate	1,009,148	4,409	14,795	1,028,352
Retail	598,929	3,415	6,184	608,528
Financial assets at fair value through other comprehensive income (investment in Sukuk)	137,219	5,874	-	143,093
Other assets	10,321	-	-	10,321
Total	<u>2,028,347</u>	<u>13,698</u>	<u>20,979</u>	<u>2,063,024</u>

### Credit quality of financial instruments

For the year ended 31 December 2017, the Group classified the various credit risk exposure which are neither past due nor impaired into two categories of credit quality as under:

**High quality:** Credit exposures where the ultimate risk of financial loss from the obligor's failure to discharge its obligation is assessed to be low-to-moderate. These include exposures to entities with financial strength and risk factors indicative of capacity to repay all contractual obligations, and those exposures that are significantly collateralized with tangible securities.

**Standard quality:** All other exposures whose payment performance is fully compliant with contractual conditions and which are not impaired.

The table below shows the credit worthiness of assets by class and grade before deducting the provision for impairment for the year ended 31 December 2017.

	Neither past due nor impaired			Total KD'000
	High quality KD'000	Standard quality KD'000	Past due or impaired KD'000	
2017				
Balances with banks	11,501	-	-	11,501
Placements with banks and the CBK	246,484	-	-	246,484
Financing receivables	747,474	458,583	77,641	1,283,698
Available-for-sale investments (investment in Sukuk)	122,447	17,693	-	140,140
Other assets	7,123	3,153	-	10,276
	<u>1,135,029</u>	<u>479,429</u>	<u>77,641</u>	<u>1,692,099</u>

Ageing analysis of past due but not impaired finance facilities by class of financial assets:

	Less than 30 days KD'000	31 to 60 days KD'000	61 to 90 days KD'000	Total KD'000
	2018			
Financing receivables	<u>17,653</u>	<u>3,940</u>	<u>2,484</u>	<u>24,077</u>
2017				
Financing receivables	<u>39,435</u>	<u>13,590</u>	<u>5,969</u>	<u>58,994</u>

### Collateral

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines initiated by the Group's risk management and credit committee are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral accepted include real estate, securities, cash and bank guarantees. The Group also obtains guarantees from parent companies for finance facilities extended to their subsidiaries.

Management monitors the fair value of collateral and requests additional collateral in accordance with the underlying agreements when necessary.

The fair value of collateral that the Group holds relating to past due or impaired finance facilities as at 31 December 2018 was KD 19,588 thousand (2017: KD 83,292 thousand). The collateral consists of cash, securities, sukuk, letters of guarantee, real estate assets and other collateral.

### c) Market risk

Market risk emanates from the process of fair value or future cash flows of a financial instrument which fluctuates due to changes in market prices. Market risk may arise from open positions in profit rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market or prices such as profit rates, credit spreads, foreign exchange rates and equity prices.

#### *Market risk management*

The Risk Management Group is responsible for development of detailed Market Risk Management framework and for the periodic review of their implementation, while it is the responsibility of the Treasury function to proactively manage and control market risk generated from various market positions in investments, financial instruments and over-the-counter deals.

The market risk framework comprises of the following elements:

- Limits for all market risk parameters and regular limits monitoring to ensure that Group does not exceed aggregate risk and concentration parameters set by the CBK limits and internal limits;
- Mark-to-market valuation based on independently published market data, and continuous review of all open positions; and
- Measuring Value-at-Risk for market sensitive positions and monitoring the same against established limits

The Group is required to comply with the guidelines and regulations of the CBK. The Market Risk policies and procedures and the market risk limits are periodically set and reviewed to ensure the implementation of the Group's market risk appetite.

#### *Profit rate risk*

Profit rate risk arises from the changes in profit rates affecting future cash flows or the fair value of the underlying financial exposure or instrument. The Group is susceptible to profit rate risk as value of Group's fixed income investments and/ or return on financing are inversely proportional to movement in market rates. Moreover, change in profit rates might also impact Group's net earnings or earnings spread.

#### *Prepayment risk*

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier than expected, such as fixed rate financial exposures when profit rates fall. Due to the contractual terms of its Islamic products, the Group is not significantly exposed to prepayment risk.

#### *Currency risk*

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is susceptible to currency risk as the Group's base currency is KD and all foreign currencies are revalued against KD. Any long or short open position in any currency exposes the Group to currency risk.

Currency risk is managed on the basis of limits determined by the CBK and a continuous assessment of the Group's open positions and current and expected exchange rate movements.

The tables below indicate the currencies to which the Group had significant exposure at 31 December on its non-trading monetary assets and liabilities and its forecasted cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the KD, with all other variables held constant, on the result and the fair value reserve (due to the change in fair value).

Currency	2018			2017		
	Change in currency rate %	Effect on result KD'000	Effect on equity KD'000	Change in currency rate %	Effect on result KD'000	Effect on equity KD'000
USD	+1	(1,000)	525	1+	(557)	320
SAR	+1	(15)	-	1+	(22)	-
GBP	+1	(58)	59	1+	(43)	47

#### *Equity price risk*

Equity price risk is the risk that the fair values of equities decrease as the result of change in the levels of equity prices and/or indices and the value of individual stocks.

The Group conducts sensitivity analysis on regular intervals in order to assess the potential impact of any material change in fair value of listed equity instruments. For such investments, a five percent increase in stock prices as at 31 December 2018 would have increased equity by KD 358 thousand (31 December 2017: KD 38 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.

#### **d) Liquidity risk**

Liquidity risk arises when the Group may be unable to meet its obligations associated with its financial liabilities. Liquidity risk can be caused by market disruptions, credit downgrades or market perception, which may cause certain sources of funding to dry up immediately. To limit this risk, the Group has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of High Quality Liquid Assets (HQLA) which could be used to secure additional funding and liquidity if and when required. The Group has in place a Contingency Funding Plan (CFP) to ensure required action is implemented in the event of any liquidity contingencies. ALCO is responsible for invoking the CFP.

#### ***Liquidity risk management***

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Risk Management Group and Treasury monitor the Group's liquidity profile daily and take appropriate steps, if required. The Group's liquidity profile is monitored on daily basis; overall assets and liabilities as well as for KD and foreign currencies (FCY), on the Group's position in terms of Statutory Liquidity Ratio (SLR) as well as Lending to Deposit Ratio (LDR) and Liquidity Coverage Rate (LCR). Treasury co-ordinates with all business groups, details of projected cash flows required or arising from potential ensuing business opportunities.

Treasury is required to maintain a portfolio of short-term liquid assets, largely made up of short-term high-quality liquid investment securities and availability of inter-bank lines at short notice, to ensure that sufficient

liquidity is maintained with the Group. Treasury's liquidity management is performed with most optimization, taking into account the maturity gaps. The daily liquidity position is monitored and regular stress testing is conducted under a variety of scenarios covering the mild and more severe market conditions. All liquidity policies are subject to review by the ALCO and approved by the BRC. Periodic liquidity profile report, including any exceptions and remedial action required/taken, is reviewed by the ALCO. The Group is governed by the liquidity limits and maturity ladder profile as mandated by the CBK regulations and the CBK approved limits.

The table below summarizes the maturity profile of the Group's assets and liabilities. The maturity profile of the assets and liabilities at the year-end are based on contractual repayment arrangement with the exception of some investments which are bucketed as per the CBK criteria.

The maturity profile of assets and liabilities as at 31 December is as follows:

	Within 3 months KD'000	3 to 6 months KD'000	6 to 12 months KD'000	Over 1 year KD'000	Total KD'000
<b>2018</b>					
<b>Assets</b>					
Cash and balances with banks	19,738	-	-	-	19,738
Placements with banks and the CBK	251,936	4,550	-	-	256,486
Financing receivables	905,647	339,696	56,742	304,457	1,606,542
Financial assets at fair value through profit or loss	-	-	-	41,500	41,500
Financial assets at fair value through other comprehensive income	7,584	4,801	-	136,200	148,585
Investments in joint ventures	-	-	-	52,498	52,498
Investment properties	-	-	-	22,867	22,867
Other assets	11,808	6,003	354	8,330	26,495
Property and equipment	-	-	-	18,358	18,358
	<b>1,196,713</b>	<b>355,050</b>	<b>57,096</b>	<b>584,210</b>	<b>2,193,069</b>
<b>Liabilities</b>					
Due to banks and other financial institutions	184,937	175,791	276,194	198,141	835,063
Depositors' accounts	728,364	206,572	80,502	37,740	1,053,178
Other liabilities	27,672	-	-	6,228	33,900
	<b>940,973</b>	<b>382,363</b>	<b>356,696</b>	<b>242,109</b>	<b>1,922,141</b>
	Within 3 months KD'000	3 to 6 months KD'000	6 to 12 months KD'000	Over 1 year KD'000	Total KD'000
<b>2017</b>					
<b>Assets</b>					
Cash and balances with banks	13,201	-	-	-	13,201
Placements with banks and the CBK	246,484	-	-	-	246,484
Financing receivables	728,610	256,494	23,710	254,508	1,263,322
Available-for-sale investments	44,021	-	6,019	115,881	165,921
Investments in joint ventures	-	-	-	31,660	31,660
Investment properties	-	-	-	24,611	24,611
Other assets	7,728	9,051	290	6,278	23,347
Property and equipment	-	-	-	5,999	5,999
	<b>1,040,044</b>	<b>265,545</b>	<b>30,019</b>	<b>438,937</b>	<b>1,774,545</b>
<b>Liabilities</b>					
Due to banks and other financial institutions	175,788	69,639	61,884	265,553	572,864
Depositors' accounts	692,369	187,206	99,588	27,451	1,006,614
Other liabilities	16,094	-	-	2,014	18,108
	<b>884,251</b>	<b>256,845</b>	<b>161,472</b>	<b>295,018</b>	<b>1,597,586</b>

The table below summarizes the maturity profile of the Group's financial liabilities as at 31 December based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately.

	Within 3 months KD'000	3 to 6 months KD'000	6 to 12 months KD'000	Over 1 year KD'000	Total KD'000
<b>2018</b>					
Due to banks and other financial institutions	<b>307,875</b>	<b>177,449</b>	<b>281,779</b>	<b>78,664</b>	<b>845,767</b>
Depositors' accounts	<b>729,919</b>	<b>210,759</b>	<b>80,719</b>	<b>41,143</b>	<b>1,062,540</b>
Other liabilities	<b>27,672</b>	-	-	<b>6,228</b>	<b>33,900</b>
	<b><u>1,065,466</u></b>	<b><u>388,208</u></b>	<b><u>362,498</u></b>	<b><u>126,035</u></b>	<b><u>1,942,207</u></b>
<b>2017</b>					
Due to banks and other financial institutions	176,082	70,128	62,794	276,065	585,069
Depositors' accounts	694,925	188,974	101,284	27,483	1,012,666
Other liabilities	13,855	-	-	4,253	18,108
	<b><u>884,862</u></b>	<b><u>259,102</u></b>	<b><u>164,078</u></b>	<b><u>307,801</u></b>	<b><u>1,615,843</u></b>

The table below shows the contractual expiry by maturity of the Group's contingent liabilities and commitments:

	Within 3 months KD'000	3 to 12 months KD'000	Over 1 year KD'000	Total KD'000
<b>2018</b>				
Acceptances and letters of credit	<b>26,296</b>	<b>6,914</b>	-	<b>33,210</b>
Letter of guarantees	<b>2,863</b>	<b>35,691</b>	<b>52,655</b>	<b>91,209</b>
Capital commitments	-	<b>223</b>	-	<b>223</b>
	<b><u>29,159</u></b>	<b><u>42,828</u></b>	<b><u>52,655</u></b>	<b><u>124,642</u></b>
<b>2017</b>				
Acceptances and letters of credit	26,704	13,084	-	39,788
Letter of guarantees	10,533	27,125	25,207	62,865
Capital commitments	-	232	-	232
	<b><u>37,237</u></b>	<b><u>40,441</u></b>	<b><u>25,207</u></b>	<b><u>102,885</u></b>

### e) 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 have legal or regulatory implications, or lead to a financial or reputational loss.

#### **Management of operational risk**

The Group has a set of policies approved by the Board and are applied to identify, assess and supervise operational risk in addition to other types of risk relating to the banking and financial activities of the Group. Suitable operational risk procedures have been agreed with various groups and departments of the Group and implemented for effectively reporting, monitoring and controlling operational risks.

Operational risk is managed under the Risk Management Group. This group ensures compliance with policies and procedures to identify, assess, supervise and monitor operational risk as part of overall prudent and robust Risk Management Framework.

The Group manages operational risks in line with the CBK instructions regarding “General Guidelines for Internal Control Systems” and directives regarding “Sound Practices for the Management and Control of Operational Risks”.

The Group has established its Business Continuity Management (“BCM”) policy to meet any internal or external failures and eventualities enabling smooth functioning of the Group’s operations.

The Group has established a Disaster Recovery (“DR”) site for its IT infrastructure, and ensures that the operational risks from any potential disruption do not adversely impact the banking business. The Group pays special attention to operational risks that may arise from non-compliance to Sharia’h principles and any possible failure in fiduciary responsibilities.

## 21. SEGMENT INFORMATION

The Group’s operating segments are determined based on the reports reviewed by the decision makers that are used for strategic decisions. These segments are strategic business units that offer different products and services. They are managed separately since the nature of the products and services, class of customers and marketing strategies of these segments are different.

These operating segments meet the criteria for reportable segments and are as follows:

- Corporate - comprising of range of banking services and investment products to corporate customers, in addition to providing commodity and real estate Murabaha finance and Ijara facilities.
- Retail - comprising of a diversified range of products and services to individual customers. The range includes consumer finance, credit cards, deposits and other branch related services.
- Treasury – comprising of Bank’s funding operations management, local and international Murabaha and other Islamic financing primarily with banks and financial institutions.
- Investment - comprising of investment in direct equity, real estate investment and other investments.
- Other – comprising of cost center assets and expenses.

Management monitors the operating segments separately for the purpose of making decisions about resource allocation and performance assessment.

The following table presents operating income, results for the year and total assets information regarding the Group’s reportable segments.

	Corporate KD’000	Retail KD’000	Treasury KD’000	Investment KD’000	Other KD’000	Total KD’000
<b>2018</b>						
Operating income	30,613	7,682	3,557	7,700	-	49,552
Net profit	14,816	81	3,583	5,784	(11,526)	12,738
Total assets	1,278,293	328,249	256,486	265,450	64,591	2,193,069
Total liabilities	172,869	363,678	1,351,694	-	33,900	1,922,141
<b>2017</b>						
Operating income	24,670	6,361	2,171	4,910	-	38,112
Net profit	13,165	(1,498)	1,880	3,829	(9,922)	7,454
Total assets	1,004,046	259,277	246,484	222,191	42,547	1,774,545
Total liabilities	157,419	324,632	1,097,427	-	18,108	1,597,586

## 22. CAPITAL MANAGEMENT

The primary objectives of the Group's capital management are to ensure that the Group complies with regulatory capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value with appropriate risk level.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may review the amount of dividend payment to shareholders or issue capital securities.

Capital adequacy and the use of regulatory capital are monitored regularly by the Group's management and governed by guidelines of Basel Committee on Banking Supervision as adopted by the CBK.

The Group follows Basel III regulations and the Group's regulatory capital and capital adequacy ratios for the year ended 31 December 2018 are calculated in accordance with the CBK Circular number 2/RB, RBA/336/2014 dated 24 June 2014 are shown below:

	2018 KD'000	2017 KD'000
Risk weighted assets	1,173,468	826,642
Capital required	152,551	107,463
Capital available		
Common equity Tier 1 "CET1" capital	194,565	100,596
Additional Tier 1 perpetual Sukuk	76,363	76,363
Total Tier 1 capital	270,928	176,959
Total Tier 2 capital	13,803	9,700
Total capital available	284,731	186,659
CET1 capital adequacy ratio: common equity	%16.58	12.17%
Total Tier 1 capital adequacy ratio	%23.09	21.41%
Total capital adequacy ratio	%24.26	22.58%

The Group's financial leverage ratio for the year ended 31 December 2018 is calculated in accordance with the CBK Circular number 2/I.B.S. 343/2014 dated 21 October 2014 and is shown below:

	2018 KD'000	2017 KD'000
Tier 1 capital	270,928	176,959
Total exposure	2,265,808	1,828,860
Financial leverage ratio	11.96%	%9.68

The disclosure relating to the capital adequacy regulations issued by the CBK as stipulated in the CBK Circular number 2/RB, RBA/336/2014 dated 24 June 2014 and disclosures related to financial leverage ratio as stipulated in the CBK Circular number 2/I.B.S. 343/2014 dated 21 October 2014 are included under the 'Risk Management' section in the annual report.

## 23. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

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. Financial instruments comprise financial assets and financial liabilities.

### Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments by valuation technique:

- **Level 1:** quoted (unadjusted) prices in an active market for identical assets and liabilities;
- **Level 2:** other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- **Level 3:** other techniques which use inputs which have a significant effect on the recorded fair value are not based on observable market data.

The following table shows an analysis of financial assets recorded at fair value by level of the fair value hierarchy:

	Fair value measurement			
	Total KD'000	Quoted prices in active markets (Level 1) KD'000	Significant observable inputs (Level 2) KD'000	Significant unobservable inputs (Level 3) KD'000
<b>2018</b>				
<i>Assets measured at fair value</i>				
<i>Financial assets at FVTPL</i>				
Quoted equity instruments	7,159	7,159	-	-
Funds (unquoted)	26,430	-	-	26,430
Other securities (unquoted)	7,911	-	-	7,911
	<b>41,500</b>	<b>7,159</b>	-	<b>34,341</b>
<i>Financial assets at FVOCI</i>				
<i>Quoted Sukuk</i>				
Sovereign Sukuk	43,683	43,683	-	-
Corporate Sukuk	97,410	97,410	-	-
	<b>141,093</b>	<b>141,093</b>	-	-
<i>Unquoted Sukuk</i>				
Unquoted Sukuk	2,000	-	-	2,000
<i>Unquoted equity instruments</i>				
Unquoted equity instruments	5,492	-	-	5,492
	<b>148,585</b>	<b>141,093</b>	-	<b>7,492</b>
<i>Derivative financial instruments (note 24)</i>				
Profit rate swaps	57	57	-	-

2017	Fair value measurement			
	Total KD'000	Quoted prices in active markets (Level 1) KD'000	Significant observable inputs (Level 2) KD'000	Significant unobservable inputs (Level 3) KD'000
Assets measured at fair value				
Available-for-sale investments:				
Quoted Sukuk				
Sovereign Sukuk	41,276	41,276	-	-
Corporate Sukuk	96,864	96,864	-	-
	138,140	138,140	-	-
Quoted equity instrument	756	756	-	-
Unquoted Sukuk	2,000	-	-	2,000
	140,896	138,896	-	2,000

The table above does not include an amount of KD 25,025 thousand related to unquoted available-for-sale investments measured at cost less impairment losses (in accordance with IAS 39) which were not disclosed at fair value as their fair values could not be measured reliably.

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

	At 1 January 2018 KD'000	Transitional adjustment on adoption of IFRS 9 at 1 January 2018 KD'000	Additions KD'000	Sale/ redemption KD'000	Change in fair value KD'000	Exchange rate movements KD'000	At 31 December 2018 KD'000
<b>Financial assets at FVTPL</b>							
Funds (unquoted)	-	16,308	10,003	(290)	409	-	26,430
Other securities (unquoted)	-	7,295	713	-	(97)	-	7,911
	-	23,603	10,716	(290)	312	-	34,341
<b>Financial assets at FVOCI</b>							
Unquoted Sukuk	2,000	-	-	-	-	-	2,000
Unquoted equity instruments		4,633	10	-	849	-	5,492
	2,000	4,633	10	-	849	-	7,492
		At 1 January 2017 KD'000	Additions KD'000	Sale/ redemption KD'000	Change in fair value KD'000	Exchange rate movements KD'000	At 31 December 2017 KD'000
Available for sale Investments							
Unquoted Sukuk		2,000	-	-	-	-	2,000
		2,000	-	-	-	-	2,000

During the years ended 31 December 2018 and 2017, there were no transfer between Level 1, Level 2 and Level 3.

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. Fair value of such financial instruments is classified under level 3 determined based on discounted cash flows, with most significant inputs being the discount rate that reflects the credit risk of counterparties.

The impact on the consolidated statement of financial position or the consolidated statement of changes in equity would be immaterial if the relevant risk variables used to fair value the financial instruments classified under level 3 were altered by 5 per cent.

## 24. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are financial instruments that derive their value by referring to profit 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 profit rate swaps to manage its profit rate risk on profit bearing assets and liabilities and to provide profit rate risk management solutions to customers.

### Profit rate swap

Profit rate swaps are contractual agreements between two counter-parties to exchange profit payments on a defined principal amount for a fixed period of time. The Group applies cash flow hedge accounting using a profit rate swap to hedge one of its foreign currency deposits with maturity up to 3 years against profit rate fluctuations. The Group implements effectiveness tests at financial position dates for hedge accounting, the effective portions are accounted as part of changes in fair value of derivatives under fair value reserve, whereas the ineffective portion is recognised in consolidated statement of profit or loss. No ineffectiveness from hedges was recognised in consolidated statement of profit or loss during the year.

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

	31 December 2018	
	Positive fair value KD'000	Notional KD'000
<i>Profit rate swaps (held as cash flow hedge)</i>	57	120,840
	<u>57</u>	<u>120,840</u>

There were no derivative financial instruments as at 31 December 2017.

## 25. COMPARATIVE INFORMATION

The comparative information for the year ended 31 December 2017 has been restated to reflect the change in accounting policies from the cost model to the fair value model for investment properties. Management takes the view that this policy provides reliable and more relevant information as fair value give users of the financial statements more useful information than cost model. The policy has been applied retrospectively.

The following adjustments have been made to the comparative financial information retrospectively in accordance with IAS 8 "Accounting policies, changes in accounting estimates and errors" and the impact on the consolidated financial statements of prior years is as follows:

	As previously reported KD'000	Restated KD'000	Effect of change KD'000
<b>Consolidated statement of financial position</b>			
<b>As at 31 December 2017</b>			
<i>Assets</i>			
Investments in joint ventures	31,102	31,660	558
Investment properties	<u>23,666</u>	<u>24,611</u>	<u>945</u>
<i>Equity</i>			
(Accumulated losses) / retained earnings	<u>(944)</u>	<u>559</u>	<u>1,503</u>
<b>As at 1 January 2017</b>			
<i>Assets</i>			
Investment properties	<u>14,815</u>	<u>15,632</u>	<u>817</u>
<i>Equity</i>			
Accumulated losses	<u>(4,798)</u>	<u>(3,981)</u>	<u>817</u>
<b>Consolidated statement of profit or loss</b>			
<b>Year ended 31 December 2017</b>			
Net investment income	6,259	6,387	128
Provision for impairment	(12,876)	(12,318)	558
Net profit for the year	<u>6,768</u>	<u>7,454</u>	<u>686</u>

A third statement of financial position has been presented to restate a material impact on the opening balances of comparative years ended 31 December 2016 and 2017.

No adjustments have been made to the statutory reserve for the comparative year to reflect the change in accounting policies.

## International Rating

**Fitch**  
Ratings **A+**

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Baa2/ Prime-2



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