



Annual Report
2019

A better solution is here

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
Sabah Al-Khaled Al-Hamad Al-Sabah
The Prime Minister

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A hand holding a pen over a document with a digital overlay of a network diagram.

Profile, Vision and Mission

Establishment of "Al-Wateen"- a one of its kind digital factory to fulfill the ambition of leading the modern digital banking era in Kuwait.

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 25.515% (Direct and Indirect), The Public Institution for Social Security (PIFSS) at 7.923% (Indirect), Al Sayer Group Holding Company at 10.006% (Direct), and Mr. Abdullah Saleh Al-Shalfan at 7.354% (Direct).

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:

14 branches, 18 branch ATMs and 52 offsite ATMs

Sharq branch	Ahmed Al Jaber St – Next to the Police Station Roundabout
Hawalli branch	Beirut St – eMall
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 .
Mubarak Al-Abdullah branch	West Mishref – PIFSS Building
Eqaila branch	Arabiya Mall – in front of Sama Mall
Fahaheel branch	Remal Complex – Balat Al-Shuhadaa St.
Al Jahra branch	Old Jahra – Marzoug AlMeteb St. – Next to Sahara Mall
Avenues Mall branch	Grand Avenues – By the Entrance, next to Al Hamra Restaurant
Farwaniya branch	Habib Al Monawir St – Next to Metro Complex and Muzaini Exchange
Salmiya branch	Laila Gallery Complex – Next to Ruby Tuesday Restaurant
Kuwait International Airport	Terminal 4
Kaifan Branch	Kaifan Block 5 - Alexandria St. - Kuwait Sports Club
Qibla branch	Fahad Al Salem St – Awtad Mall – Next to Muthanna Complex



Chairman's Message

Issuance of 500\$ million Sukuk the first ever senior unsecured sukuk issued by any Kuwaiti financial institution listed on NASDAQ Dubai and the Irish Stock Exchange.

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

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

Dear Honourable Shareholders,**Peace, Mercy and Blessings of Allah be upon you;**

On behalf of my fellow Members in the Board of Directors, the Executive Management and myself, it gives me great pleasure to present to you Warba Bank's 9th Annual Report and the Audited Financial Statements for 2019 and share with you the remarkable achievements realized by the Bank's groups on domestic, regional and international levels.

Warba Bank starts a new era folding its first decade by the end of 2019 since the Bank's incorporation in 2010. Since then, the Bank, in its first decade, has witnessed accelerated achievements and positive developments. Now, Warba Bank has become one of the most prominent and distinctive brands in the Kuwaiti banking sector through working hard to deep-root and enhance its position among local financial institutions and increase its market share.

Although the past decade has witnessed major economic changes, the Bank has successfully managed to achieve positive results. On the financial level, the financial statements for the past ten years reflected the Bank's successes in its growth journey. The Bank realized net profit of KD 16.5 million in 2019 reflecting strong growth across its business sectors. The Bank is confident that it will continue to deliver such high results in future, while continuing to make significant investments in products, human capital and technology. The Bank was able to achieve growth rate in the financing portfolio by 41% reaching KD 2.3 billion compared to KD 1.6 billion at the end of 2018. In the same context, the Bank was able to continue improving the quality of its financing portfolio in 2019, where the ratio of non-performing loans to the total financing portfolio reached 1.1% compared to 1.4% as at the end of 2018. The Bank's total assets exceeded KD 3 billion for the first time since the Bank's incorporations, recording KD 3.1 billion at the end of 2019 compared to KD 2.2 billion at the end of 2018 or at growth rate of 43%.

Deposits have grown to KD 2.7 billion by the end of 2019 compared to KD 1.9 billion as at the end of 2018 or at a growth rate of 41%.

In terms of qualitative achievements, Warba Bank has been able to realize several successes. In 2012, the Bank was officially opened in the presence and honour of His Highness the Amir of State of Kuwait at the Bank Inauguration Ceremony. Many financial options, solutions and innovations in compliance with the provisions of Islamic Sharia have been set up to suit customers' various needs while paying utmost care for developing the technical aspects, including the development of several payment methods, banking cards, and online banking services, in addition to the expansion of the Bank branching network to cover all governorates of the State of Kuwait. The Bank has also engaged in a number of mega private and government investments. It is noteworthy that despite the accelerated growth that the Bank has achieved during the past few years, which is often associated with an atypical increase in the operating costs and other administrative costs, Warba Bank has been able to balance the high growth at the level of the total assets, revenues and deposits while maintaining ratios of operating costs at normal levels compared to ratios of peers in the domestic market. The cost to income ratio recorded 37.5% at the end of 2019 compared to 38.3% at the end of 2018 or at a decline of 1.2%, thus illustrating the effectiveness of the Management measures to achieve standard operating rates, with positive impact improving profitability and return on shareholders' equity. Warba Bank shares were listed on the Kuwait Stock Exchange on the 3rd of September 2013. The Bank was assigned the first credit rating in 2015 by Moody's Credit Rating Agency. The Bank has also won "the Fastest Growing Bank" award from Middle East Magazine for five years in a row. The Bank has been able to enhance its capital base which has almost tripled since incorporation, reaching KD 314 million as at the end of the year 2019, compared to KD 100 million in 2010.

This success is the fruit of continuous efforts over the last three years. During the first quarter 2017, the Bank succeeded in issuing perpetual "Tier 1" Sukuk of USD 250 million, equivalent to KD 76.4 million. The Sukuk was listed on the Irish Stock Exchange and Nasdaq Dubai Stock Exchange. This reflects the Bank's ability to have investors' trust for its excellent operating performance demonstrated in the years preceding the Sukuk issuance, as well as investors' strong belief in the efficiency of the Bank's future business model. By the end of 2018, the Bank also achieved remarkable success increasing its share capital by 50%, oversubscribed by the Bank's shareholders for all the issue shares, with total offering value of KD 90 million. The allocation percentage of the subscription surplus in the remaining issue shares, after practicing the pre-emption right, reached 27%.

In addition to enhancing the share capital, in 2019 Warba Bank, as the first Bank in the State of Kuwait, was able to successfully accomplish the first phase of issuing USD 500 million senior unsecured sukuk with maturity period of up to 5 years, reflecting Warba Bank's ability to enhance its position and investors' confidence in the Bank's excellent future performance locally or internationally.

2019 was another remarkable year for the Bank, where it succeeded in achieving growth at various business activities in line with the local economic conditions. The Bank was able to achieve good results despite the turbulent global conditions and the intense local and regional competition. As such, the Bank's success and achievements have become a part of the strong and stable system of the national economy. The indicators show that the sectoral economic activities of the State of Kuwait have achieved positive stability and growth and a significant expansion in activities, reflected in the expansion and diversification of the base of the national economy.

The economic forecast for the coming fiscal year 2020 indicates continual growth in most domestic economic sectors, including the banking sector, as a result of the effective financial and monetary policies pursued by the State of Kuwait, and the continuation of the government spending at all levels in addition to the growth of the private sector's contribution to the Gross Domestic Product "GDP". Warba Bank will continue focusing on enhancing its leading position in the banking sector on local and international levels, by providing traditional and digital best banking products and services for both retail and corporate, using top notch electronic technologies, and improving and developing customers communication channels.

2019 witnessed many corporate social initiatives, embodying the Bank's role in achieving sustainable development for the Kuwaiti society and caring for all segments of society, particularly the youth segment and expanding participation between them and the Bank, especially university students through the design of many programs that give them the chance to participate in the Bank's issues and innovations during their study as a first step for attracting outstanding students to join Warba Bank. The national labor percentage increased during the year reaching 74.2%. Further, the Bank also increased the activities for qualification, internal and external training for all employees.

In the coming years, we will see many developments for Warba Bank activities so that we can best serve our customers and at the same time achieve suitable profit for them and for our valued shareholders. The one team spirit amongst the Bank employees is of course reflected on their dealings with the public, which is a source of my pride and pleasure being one of this friendly and cooperative team. Therefore, I express my sincere thanks and appreciation to all of them. I also extend my thanks and appreciation to the revered members of the Sharia Supervisory Board for their efforts and for the confidence and credibility in Sharia controls they established in the Bank, that define the characteristics of Warba Bank's promising future.



Last but not least, I would like to express my sincere thanks and appreciation to the fellow members of the Board of Directors and stakeholders for their sincere efforts. In recognition of their efforts, a remuneration of total amount of KD 125 thousand has been allocated to the members of the Board of Directors for the year 2019.

The Board of Directors is pleased to inform you of its recommendation to the general assembly to distribute bonus shares amounting to 5% of the issued and paid up capital (5 shares per 100 shares).

In conclusion, May Allah help us all for the good of Kuwait and its people, under the patronage of His Highness the Amir of the State, Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah, may Allah bless him, the Crown Prince, Sheikh Nawaf Al-Ahmad Al-Jaber Al-Sabah, may Allah bless him and His Highness Sheikh Sabah Khalid Al-Hamad Al-Sabah, Prime Minister and His Excellency Dr. Mohamed Youssef Al-Hashel, the Governor of the Central Bank of Kuwait and members of the Board of Directors of Warba Bank. We ask Allah, the Almighty, to bless and guide us all for the success of the Bank and its employees for more progress and prosperity.

A handwritten signature in blue ink, consisting of several fluid, connected strokes.

Abdulwahab A. Al Houti
Chairman of the Board of Directors



Board of Directors

Affirmations from credit rating agencies that continue to reflect a strong image of the bank's corporate outlook and its strategy with Fitch Ratings of "A+" and Moody's rating of "Baa2" with a positive outlook.



Mr. Abdulwahab Abdullah Al Houti
Chairman (Elected)

Al Houti holds a Bachelor's Degree in Business Administration from Kuwait University in 1976 and Master of Business Administration from Newhaven University – USA in 1979. He has been a Board Member in Warba Bank since 2013 and then elected to be the Board Chairman in March 2016 till 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 several companies and banks, namely Boubyan Bank, Bangladesh Islamic Bank, Capinvest Bank and Real Estate Asset Management Company (REEM).



Mr. Hamad Musaed Al Sayer
Vice Chairman (Elected)

Al Sayer holds a Bachelor's Degree in Finance from Seattle University in the United States of America in 1997 and an MBA from Maastricht University of Business Administration in 2006. He has been Warba Bank's Vice Chairman from March 2019 to date. He serves as Chief Executive Officer “CEO” of Al-Sayer Imtiazat General Trading and Contracting Company W.L.L, the investment arm of Al Sayer Group, since 2003 till date. He started his career in the corporate finance sector at the National Bank of Kuwait from 1998 to 2003. He has been a Chairman and member of the Board of Directors in a number of local and regional companies and financial institutions including, but not limited to, Al-Dhow Investment Company, United Securities Brokerage Company in Egypt, Vision Securities Company in the Sultanate of Oman and FIMBank in Malta.



Mr. Bader Khalid Al Shalfan
Board Member (Elected)

Al Shalfan holds a Bachelor's Degree in Business Administration from Kuwait University in 2000. He has been a member of Warba Bank's Board of Directors from March 2019 to date. He joined the Ministry of Finance in 2001 as an officer and researcher in the Procurement Systems Department. Later, he founded Health Company with a group of partners, holding the position of the General Manager for over ten years. He then founded Bond International Real Estate Company with a group of partners in 2013 and continues to serve as the General Manager of the Company that provides advisory services and studies in the investment and real estate domestic and international market. He is the official representative in Kuwait for Jones Lang LaSalle (JLL) one of the leading companies across the world providing real estate services.



Mr. Abdulaziz Abdullah Al Jaber
Board Member (Elected)

Al-Jaber holds a Bachelor's Degree of Science in Electrical Engineering from Washington University in the United States of America in 1979. He has been a member of Warba Bank's Board of Directors since March 2016 to date and appointed as a member of Kuwait Petroleum Corporation's Board of Directors by an Amiri Decree issued in August 2019. 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 a member of the board of directors in a number of companies most notably Petrochemical Industries Company, Gulf Oil Company and Human Investment Corporation.



Mr. Mohamed Hamed Al Shalfan
Board Member (Elected)

Al Shalfan holds a Bachelor's Degree of Science in Civil Engineering from the University of Colorado in 2002 and a Master of Business Administration "MBA" from DePaul University in the United States of America in 2008. He has been a member of Warba Bank Board of Directors from March 2019 to date. He started his career at Kuwaiti Manager Holding Company from 2003 to 2017 in the position of Deputy General Manager for Operations in 2010, then the Company's General Manager in 2013. Since 2017 till date, he has been the Executive Partner of Sama Project Management Company. He has been a member of the Board of Directors at several local and regional companies, most notably, Kuwaiti Manager Holding Company, Kuwaiti Manager Ready Mix for Concrete Production, Kuwaiti Manager- Bahrain, Kuwaiti Manager - Oman, Gulf Manager-Saudi Arabia and KFH Real Estate Company in Saudi Arabia.



Mr. Mohamed Riyad Al Mutawa
Board Member (Elected)

Al Mutawa holds a Bachelor's Degree in Finance from Kuwait University in 2001. He has been 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, Arabian Sea Enterprises Limited, Farah Al Magrib Real Estate Company and National Offset Company. In addition, he participated in several training courses, programs and seminars in various fields.



Mr. Mohammad Abdulredha Saleem
Board Member (Elected)

Mr. Saleem holds a Bachelor's Degree of Business Administration in Finance from the Kuwait University in 1985. He has been a member of Warba Bank's Board of Directors since March 2016 to date. He has gained professional experience from his service over 33 years at Kuwait Investment Authority since 1986 where he held various positions including the Treasury Department Manager from 2006 to date. He currently holds the position of Vice Chairman in the Arab Banking Corporation. He has been a Chairman or a member of the board of directors in a number of companies such as Generations Fund Holding Company, Kuwait Investment Company, the Egyptian Kuwaiti Real Estate Development Company, Gulf Custody Company, Kuwait Real Estate Holding Company, Kuwait Flour Mill & Bakeries Company. He also participated in many theoretical and practical courses at leading banks and global financial institutions in areas of portfolios management, investment and capital markets.



Mr. Musaab Omar Al Fulajj
Board Member (elected)

Al Fulajj holds a Bachelor's Degree of Science in Business Administration, Finance Major from Saint Louis University USA, 1997. He has been a member of the Board of Directors at Warba Bank 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.



Mr. Hisham Abdulrazzaq Al Rezouqi
Board Member (Elected):

Al Rezouqi holds a Bachelor's Degree in Public Administration from the American University of Beirut in 1973, and Senior Management Program from Harvard University in 1988. He has been a Board Member in Warba Bank since August 2013 to date. He commenced his career in Kuwait Foreign Trading & 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, Burgan Bank, Kuwait Investment Company, Tawasul Telecom Company, Kuwait Reinsurance Company and Global Investment House.



Mr. Yousef Ibrahim Al Ghanim
Board Member (Elected):

Al Ghanim holds a Bachelor's Degree in Accounting from the College of Business Administration at Kuwait University in 2006 and the General Manager Program from the University of Chicago in 2017. He has been a member of Warba Bank Board of Directors from March 2019 to date. He began his career at the Real Estate Investment Department of the Real Estate Activities Company from 2003 to 2007. He moved to Abu Dhabi First Bank - Kuwait Branch from 2007 to 2010, then assumed the position of Chief Investment Officer at Al Misaila World General Trading Company from 2010 to 2014; later he joined Al-Aman Investment Company from 2014 till date where he held several key positions, most recently, the Chief Executive Officer. He has been a member of the board of directors for several financial and banking institutions such as Al-Aman Investment, Gulf Commercial Bank in Bahrain, GFH Capital Limited in Dubai and GFH Financial Group in Bahrain.

Fatwa and
Sharia
Supervisory
Board
Members



Launch of Al Masi - private banking segment with specialized offerings along with a dedicated lounge in terminal 4 in Kuwait int'l airport.



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 & 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.



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.



Sheikh Dr. Mohammad Oud AlFuzaiie

Dr. Mohammad Oud AlFuzaiie 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 at 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.



Sheikh Dr. Ali Ibrahim Al Rashed

Dr. Ali Ibrahim Al Rashed Bachelor of Shari'a (College of Shari'a and studies - Kuwait University), Master of Sharia (University of Cairo - Arab Republic of Egypt), PhD in Sharia (University of Cairo - Arab Republic of Egypt), Member of the faculty in the College of Shari'ah - Kuwait University, Member of different Fatwa authorities in many Islamic investment institutions - inside and outside Kuwait, Member of the Shariah Committee in The Ministry of Awqaf - Kuwait, Member of the Shariah Committee in Accounting and Auditing Organization for Islamic Financial Institutions (AIAAOIFI). Member of Fatwa and Shari'a Supervisory Board at Boubyan Bank. Member of Fatwa and Shari'a Supervisory Board of Ahli United Bank. Member of Fatwa and Shari'a Supervisory Board at Warba Bank.



Sheikh Dr. Motlaq Jaser Aljaser

Dr. Mutlaq Jasser Mutlaq Al-Jasser is the Assistant Dean for Student Affairs at the Faculty of Sharia and Islamic Studies - Kuwait University and a member of the teaching staff at the Department of Comparative Jurisprudence and Sharia Policy and a preacher at the Ministry of Awqaf and Islamic Affairs.

He holds a Ph.D. in Islamic Economics for his thesis entitled: "Change Theory of Fatwas and their Applications in the Islamic Banking Jurisprudence", from Yarmouk University, Jordan. He also holds a Master degree in Islamic Sharia for his thesis entitled: "Lease Sukuk and their provisions in Islamic Sharia, a comparative study with Islamic Economics, from Cairo University, Faculty of Dar Al Uloom, with excellent grade.





Fatwa and Sharia Supervisory Board Report

Launch of Rowad the innovation program - a first of its kind innovation incubator in collaboration with 4 prestigious universities in Kuwait to establish a sustainable stream of continuous innovation.

Report of Fatwa and Sharia Supervisory Board

For the fiscal year ended on 31/12/2019

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 31/12/2019. 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 ending on 31/12/2019, 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 31/12/2019, FSSB held 13 meetings attended by all members, except two board members absent (Dr. Issa Zaki, and Dr. Mutlaq Aljaser) with excuse for one day.

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. Mohammad Oud

AlFuzaie

Member of FSSB



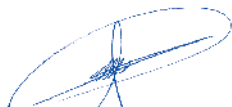
Sheikh Dr. Isam Khalaf Al Enazi

Member and Rapporteur of FSSB



Sheikh Dr. Issa Zaki Issa

Chairman of FSSB



Sheikh Dr. Mutlaq Jaser Aljaser

Member of FSSB



Sheikh Dr. Ali Ibrahim Alrashed

Member of FSSB



Executive Management

Transformation of the branch network through new traditional and digitally enabled branches that deliver enhanced branch value proposition to the customers of the Bank.



Shaheen Hamad Alghanem
Chief Executive Officer "CEO"

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 31 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 March 2014 as Deputy CEO for Investment and Treasury then has assumed the position of Chief Executive Officer since 2016 to date.



Haytham Abdulaziz Al Terkait
Chief Technology Officer "CTO"

Al Terkait holds Bachelor's Degree of Science in Mechanical Engineering from Metro State - Denver, Colorado - USA in 1988. He attended many key specialized training courses on IT sciences. Al Terkait has over 31 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 Technology Officer and played significant role in setting up the infrastructure of the Information Technology Group in the Bank.



Thuwaini Khalid Al-Thuwaini
Chief Investment Banking Officer "CIBO"

Al Thuwaini holds a Bachelor's Degree in Economics from the University of Maryland, College Park. He attended many programs for executive leadership development. He has more than 14 years of experience in banking and investment sector of which 6 years in 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 January 2015 and currently serves as Chief Investment Banking Officer.



Khaled Hasan Hafez
Chief Financial Officer "CFO"

Hafez obtained Bachelor's 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 26 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.



Simon Larby Clements
Chief Retail Banking Officer "CRBO"

Clements holds a Bachelor's Degree in Business Administration from the UK. He has over 44 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.



Mohamed Iqbal
Treasurer

Mohamed Iqbal holds a Bachelor's Degree of Science in Business Administration from Oklahoma State University, USA. A senior banker, he has more than 30 years' experience in the financial industry and has helmed various senior management responsibilities. Prior to joining the bank, he was Chief Officer at Kuwait Finance House Malaysia Berhad from 2005 to 2016 in three different capacities; General Manager, Treasury, at Malaysia's Employees Provident Fund from 2003 to 2005; and Assistant General Manager/Treasurer of Malaysia's AmBank Berhad from 1996 to 2003. Mohamed Iqbal joined Warba Bank in May 2016 and holds the position of the Treasurer.



Mohamed Atif El Shareef
Chief Strategy and Digital Officer "CSDO"

El Shareef holds a Bachelor's 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 -2005. He has more than 20 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 - Business Performance and Planning Division till 2015. Then, he joined Warba Bank as Chief Strategic Planning Officer, then Chief Strategic and Digital Officer.



Paul Quigley
Chief Risk Officer "CRO"

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 41 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 and as an academic at Dublin City University. Dr Paul Quigley joined Warba Bank as CRO in June 2018.



Mahmoud Mohammad Yousef
Chief Internal Auditor "CIA"

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 39 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.



Abdulaziz Suleiman Al Hqqan
Acting Chief Operations Officer "ACOO"

Al-Haqqan holds bachelor's degree in accounting from the College of Business Administration - Kuwait University in 2001 and a high diploma in Islamic Finance from the College of Sharia and Islamic Studies - Kuwait University in 2012. He has 18 - year experience in the Operations and Corporate Sector. Starting his career in 2001 at Kuwait Finance House, he held several positions including the executive director for Trade Finance. He chaired the sports committee at Kuwait Finance House, in addition he has been an active member of several committees, most notably the "Staff Fund". He has also attended many advanced professional courses in the field of banking business at prestigious institutions and universities, most notably Harvard University, INSEAD University and AMD University. He then joined Warba Bank in 2019 in the position of acting chief operations officer.



Abdullah Jassim Hamada
Acting Chief Human Resources &
General Services Officer "ACHRO"

Hamada holds a Bachelor 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 more than 14 years of experience, starting his career in Petrochemical and Banking sectors. He began his career at the public sector then moved to the petrochemical where he worked in human resources for EQUATE Petrochemical Company. He joined Warba Bank during the foundation stage in 2011 then moved to Al-Ghanim Industries Company, to get back in 2015 to Warba Bank where he currently holds the position of Acting Chief Human Resources and General Services Officer.



Mazen Khalid Mandani
Acting Chief Corporate Banking
Officer "ACCBO"

Mandani holds a bachelor's degree of Science in Public Business Administration from the University of Arizona, USA, with more than 21 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 in 2002, where he worked as Assistant General Manager for Corporate Banking Division, 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 and Chairman of the Audit Committee. He has attended several professional courses in 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.





Management Discussion and Analysis Report

Enhancement of products offerings & services through the launch of several new superior products and 1st in the market digital services to deliver unmatched customer-centric banking experience.

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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 ultimate accountability residing with 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 have both recognized the robust risk and controls framework within the Bank as a positive factor. The Bank is also regularly inspected by the Central Bank of Kuwait.

RISK MANAGEMENT PHILOSOPHY

Warba Bank considers sound risk management to be the foundation of a long-lasting financial institution. The Bank adopts a holistic and integrated approach to risk management by proactively assessing risks in order to ensure effective mitigation strategies are employed to the extent possible, thereby enabling the Bank to protect the interests of the stakeholders while maximizing its capability to realize its objectives, within the risk appetite framework approved by the Board of Directors. The Risk Management framework is geared to raise risk awareness throughout the organization.

RISK MANAGEMENT GROUP

The primary purpose of Risk Management at Warba Bank is to ensure the long-term financial sustainability and operational resilience of the Bank by endeavoring to implement international best banking practices while fostering a sound and prudent risk culture across all its business lines.

Warba Bank has established a comprehensive risk management framework to manage all material risks identified under Basel guidelines, including Credit, Market, Operational, and Information Security Risks. The risk management function operates within the regulatory framework set out by the Central Bank of Kuwait. Risk policies and processes for each type of risk are integrated into the business decision-making process.

Risk Management Group (RMG), reporting to the Board Risk Committee (BRC), is headed by the Chief Risk Officer (CRO) and operates independent of all business lines to provide oversight on Enterprise-wide Risk Management and Internal Controls. RMG is viewed as a strategic partner in achieving appropriate balance between risks and growth objectives.

The Board of Directors, through the Board Risk Committee, is responsible for the overall risk oversight of the Bank. This includes reviewing and approving risk management policies, risk appetite, risk exposures and limits, while ensuring the necessary infrastructure and resources are in place.

RMG adopts a proactive approach in managing risks. This approach helps in analyzing macro-economic environments, early detection of emerging risks and 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 and/or recommend the need to fine-tune the risk profile of the Bank due to ever-changing macro-economic and/or business and geo-political risks.

INTERNAL AUDIT GROUP

The objective of the Internal Audit Group (IAG) is to provide independent, objective assurance and consulting services designed to add value and improve the Bank's operations. It helps the Bank to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

The scope of internal audit includes the examination and evaluation of the appropriateness and effectiveness of



the internal control system and of the manner in which assigned responsibilities are fulfilled. In many respects, this represents a risk analysis of the Bank's internal control system. Every activity and every entity of the Bank is within the scope of the Internal Audit.

RETAIL BANKING GROUP

The Retail Banking Group (RBG) provides a full fledged of retail financial products and banking services throughout the State of Kuwait. RBG has focused on making large-scale investments in technology, new branches and staffing to accommodate the growing number of customers in light of the intense competition for products, capabilities and prices. Hence, we expanded our presence in all governorates across the country. the Group expanded its branch network by opening a new branch in the new Kuwait Airways Terminal at Kuwait International Airport which is a prime location to serve our customers 24x7 in addition to our branch in Kaifan to reach a total of 14 branches. The Bank intends to open 3 more branches next year all in residential areas as per the Group's strategic plan. The Group continues to improve and upgrade our products with main focus on digital solutions and upgrading the credit cards system to provide our customers with cutting edge services.

During 2019, we strived to give our customers utmost attention and improve our services by considering our business from customers' point of view for providing better, faster and more efficient solutions. This is done by making improvements in technology and ongoing training for our staff. The Bank has completely revamped its mobile banking application for both iOS and Android platforms enriching it with numerous new, first of its kind services. With the new app, customers can enjoy a wide array of unique facilities such as the "dashboard" where they can monitor their spending and make smart decisions. In addition, the introduction of my Budget, Jam3eya, split bill with friends and family account service where the customer can manage his children accounts, has further enhanced the customer loyalty. More importantly, we have done the right thing to enable serving our customers at various segments anytime.

During the year we expanded our solutions and options to cover future customers by launching the first Islamic Sharia compliant draw account for children: Sunbula Kids, a saving investment account for children based on the principle of investment Wakala at competitive returns and monthly draws.

Over the past three years, we have undertaken an overall and continuous update of the information technology infrastructure and development of our computers. We increased our operational and storage capabilities, developed our various electronic channels and linked them with social media networks so that all customers can deal with the Bank around the clock via modern electronic channels such as the Internet, mobile application and automated teller machines. The Bank has a total of 70 ATMs, 18 onsite and 52 at offsite locations with heavy traffic. In addition, the Bank has 3 full-functional Express Bank Machines (EBMs) enabling customers onboarding to open new accounts, issue debit cards and obtain a wide array of branch transactions 24/7.

Sales have been strong throughout the year across all channels; exceptional performance has been achieved in the auto finance market. Whilst we are the newest entrant in the market, we have done exceptionally well and become a market leader in auto finance during the past couple of years. To expand our market share and position, the Bank carries on expanding its unique offers with car agencies and conducts the annual Auto Show event. The Group has also introduced first of its kind Medi-Cash product which allows customers to finance their medical needs while at the same time earn profits on their cash.

The Group has a special focus on customer experience management as a top priority. Whilst we have been ranked among the top banks in Kuwait in customer service according to a research conducted by an independent third party, the Bank strives to continue its exceptional customer service by measuring and monitoring all customer touch points. On an ongoing basis, we analyze and compare ourselves with our peers at a very detailed level. This assessment does not only include financial statements, but also includes operational data, customer satisfaction and many other indicators given the fact that awareness of our shortcomings, studying them extensively and learning therefrom make us a stronger Bank.



PRIVATE BANKING SERVICES "AL-MASI"

During 2019, we availed from information and technology to expand our fingerprint, interact with our customers and attract new customers resulting in growth of the deposit portfolio by about 40%. In this regard, the Bank has set a new department for retail private banking services "Al- Masi" that caters to the high net worth individuals with various needs. Through Al- Masi financial and non-financial solutions are tailor- made to ensure that customers' needs are satisfied and to provide them with several benefits such as a dedicated relationship manager to ensure their banking needs are delivered immediately and the service provided is to the highest international standard. This is achieved by integrating our human expertise with our outstanding digital offerings to serve and manage the wealth of this promising segment.

CORPORATE BANKING GROUP

In Year 2019, the Corporate Banking Group (CBG) played a pivotal role in providing top-notch financing services for Warba Bank non-individual and individual customers, 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 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 calibre 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 49% in Year 2019; 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 Year 2019 a special Corporate Services Branch opened and developed many products, and most important, the Corporate Banking Group Call Account in KD and USD high profits. Also 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 2020 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; 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 Year 2019, CBG developed the financing operations for residential properties as well as industrial plots. It's noteworthy that CBG's recent entry into the market enables it to seize many expansion opportunities in various financing sectors. While the Board of Directors has already approved a series of expansion's opportunities in these fields, CBG is currently studying them for implementation as per balanced strategy perspective in the coming period. CBG has equipped the convenient infrastructure for fast implementation of its objectives in due course.

The Investment Banking Group (“IBG”)

The Investment Banking Group (“IBG”), demonstrated strong performance during 2019, as the business continued to deliver enhanced capabilities locally and regionally, while astutely piloting competitive pressures and economic turbulence. All IBG’s businesses had a very successful year satisfying our customers’ requirements at fair and reasonable prices. We are proud that we not only achieved all our objectives but also surpassing expectations and substantiating the efficacy of our highly qualified staff and adopting customer driven approach.

Structured and Syndicated Finance Department

The Structured and Syndicated Finance Department (“SSF”) specialises in a wide array of corporate financing segments including aviation, project, structured, syndicated and M&A financing. SSF also has significant experience in the origination, structuring, pricing and distributing of Islamic debt capital market (“DCM”). In 2019, SSF managed to continue its success in the face of challenging market conditions and increased volatility.

SSF was very active in DCM for 2019 with its appointment as a Joint Lead Manager (“JLM”) and Bookrunner on the following Sukuk issuances: USD 600 million for Emirates Strategic Investment Company, USD 600 million for Dar Al-Arkan Real Estate Development Company, USD 500 million for Arabian Centres Company, USD 750 million for Dubai Islamic Bank and USD 1,000 million for Islamic Development Bank on its debut Green Sukuk. In addition to our JLM roles, Warba also managed to be appointed as Co-Lead Manager on the USD 1,000 million Government of Sharjah sukuk issuance.

In the structured and syndicated finance market, Warba Bank seized opportunities to maintain sound growth indicators of the Bank by financing various transactions which include notable facilities such as: USD 306 million for ALAFCO, USD 110 million for NMC Health Care LLC, USD 200 million for Daewoo Engineering & Construction and USD 250 million for Ziraat Participation Bank with an additional role as Investment Agent. In addition to the aforementioned transactions, SSF was successful in participating in various other cross-border financing and Investment opportunities with existing and newly established relationships.

Real Estate Investment Department (“REI”)

In 2019 the Real Estate Investment Department (“REI”) demonstrated a firm commitment to growing its global real estate investments in accordance with IBG’s asset allocation strategy. The Bank’s real estate investment portfolio grew by 45% year-on-year from KWD 84 million at the end of 2018 to KWD 122 million at the end of 2019. A total of six new real estate investments were made during 2019 those are geographically diversified in major gateway cities in USA, Europe and UK in the diversified real estate sectors extending to multifamily, multi-let core and core plus office premises and regional food store, with a total gross acquisition value equivalent KWD 180 million alongside internationally reputed joint venture partners and assets managers. In addition, it also committed to invest USD 25 million in a diversified value-add private real estate fund in USA.

The Investment properties are widely diversified across various states and high growth cities namely, North Carolina, Pittsburgh, Dallas, Philadelphia in the USA, Greater London in UK and Dublin and Cork in Ireland. The Assets are strategically located in core and core plus locations in the Central Business Districted, high growth business parks and selective suburban markets those are supported by strong economic and robust demographic fundamentals.

The Direct Investment Department (“DID”)

The Direct Investment Department (“DID”) manages the Bank’s strategic and proprietary investments across multiple asset classes. The Department follows the Strategic Asset Allocation set for IBG in allocating capital across multiple asset classes based on long term expected return and volatility for each asset class. A risk budget for the Portfolio is monitored periodically based on the Bank’s goals and tolerance for risk and volatility. Based on the Strategic Asset Allocation, the IBG frames an allocation strategy that diversifies across asset classes and geographies while continuously monitoring the total Value at Risk (VaR). This allows for a more methodical

investment process from an asset-liability management perspective and enables more efficient harvesting of risk premia.

Financial Institutions Department (“FID”)

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 the relationships with banking and non-banking financial institutions, has witnessed a significant growth in its business and monetary activities in 2019. As FID focused on supporting the growth of the Bank’s various business lines, it increased its correspondent banking network on reciprocal basis in targeted regions and countries. In 2019, FID established 20 new correspondent banks in its network from 13 different countries. FID realized adequate diversification in its revenue composition, particularly in the offering of the bank’s Treasury solutions and new Sharia-complaint products and structures for diversification of revenue streams.

For the first time since its establishment in 2010, Warba Bank participated in SIBOS 2019 London, the annual conference, exhibition and networking event organised by SWIFT for the financial industry and held an exhibition booth to showcase its financial product offerings and increase institutional brand awareness and recognition. Looking ahead, FID will continue to enhance business relations with local and international financial institutions on trade finance, trade financing and FI bilateral facilities.

In line with its strategic aspirations and its mission to provide a comprehensive range of financial solutions to its customers, Warba Bank received the final approval from the Kuwait Capital Markets Authority (“CMA”) for undertaking securities activities, namely, investment portfolio manager, collective investment scheme manager, investment advisor, subscription agent and custodian. Warba Bank is set to launch its Wealth & Asset Management platform in 2020 to both institutional and High Net worth customers.

Treasury Group

For the financial year 2019, Treasury Group continued its growth in alignment with the Bank’s Strategic thrust despite the volatile external environment. At a macro level the reversal of the U.S. Federal Reserve Bank’s stance on its policy rate saw a sharp decline in market prices and a compression of margins as investors rushed to lock in yields. The Central Bank of Kuwait though was more prudent in its approach and ensured continued stability in the domestic financial system by keeping market rates at levels attractive to depositors. During the year the USD traded in a narrower range against the KWD as compared to the previous year, closing at KWD 0.30310 per Dollar.

Treasury’s highlight achievement of the year was the successful implementation of the fifth pillar of the Bank’s liquidity management strategy - the establishment of the Bank’s USD 2.0 billion Senior Unsecured Sukuk Program. The Bank subsequently became the first Bank from Kuwait to issue a sukuk, tapping the global market for a USD 500.0 million issuance on 24 September 2019. The sukuk received overwhelming response from investors with its order book oversubscribed by more than 6 times and final pricing of 135 basis points above mid-swap, exceeding all targets set.

Treasury dealing activities continued to grow on all fronts with deposits growing by 42% and Foreign Exchange volume by 104% translating into a 51% increase in FX profits. Cost of funds was managed in a dynamic manner to ensure it remained contained within the budgeted expectations.

During the year, Treasury Group also successfully deployed its Dealing System, automating a previously manual process which has resulted in reduced workflow redundancy and risk of errors.

Working closely with the Financial Institutions Unit, Treasury continued to expand its reach by onboarding a number of new partners to facilitate reciprocal dealing relationships and enhance liquidity and the price



discovery process.

Treasury personnel attended numerous training courses to build their capabilities, including online training modules introduced by the bank. Training and development will continue to be a key area of focus in 2020 as we look forward to an even better year for the Bank and the Treasury Group.

INFORMATION TECHNOLOGY GROUP 2019

Warba Bank continued its digital transformation journey and outperformed the market by providing innovative digital solutions and services to its customers throughout 2019. ITG played a pivotal role in providing top-notch and crucial support that was required for the Bank to enhance the delivery of its digital propositions.

The diversification of technology footprint and building the 'infrastructure for the future' was a key focus for ITG in 2019, as was the security, stability and availability of all information assets. Staff across ITG worked tirelessly with a 'digital and agile mindset' not only to meet but exceed the expectations of the business while striking a balance between operations and innovation.

Digitization of key back-office processes, application enhancements, reporting and workflow automation were the technology highpoints of 2019 that resulted in improved decision making, increased productivity and completion of back-end tasks more accurately and efficiently across various banking domains.

The following key achievements delivered significant value during 2019 by provisioning DevOps platforms for seamless communication and collaboration between development and operations. IT also bridges the traditional gaps between IT and cybersecurity while ensuring fast, safe delivery of code with the implementation of DevSecOps framework. The ITG also attained significant enhancement in the delivery of services on customer channels by enabling agile development and integration strategy for better quality of services to our banking partners and customers by streamlining complex business processes with Robotic Process Automation as innovative use of technology. ITG garners the culture of governance and compliance assurance through persistent regulatory reporting efforts and effective assessment of key information system controls. ITG has successfully and efficiently delivered more than 41 bank wide projects.

ITG has made considerable strides in enhancing the internal operations and cyber security program contributing to the success of the bank in granting its customers access to all banking transactions and availing finance at any time and place.

It is just the beginning of Warba bank's digital transformation journey and ITG will remain at its forefront by diversifying and building an operating architecture that will ensure future growth of the bank as we grasp the vast range of opportunities available to us.

OPERATIONS GROUP

During 2019 Operations Group has contributed a significant role in the accomplishment of Bank's strategic objectives while providing the back-office support to Corporate Banking Group, Investment Banking Group, Retail Banking Group and Treasury Front office.

Operations Group effectively managed the cost by utilizing the current available resources for achieving the maximum output where the number of transactions has been increased up to 67% comparing to previous year's volume. Worked on the enhancement of numerous customer centric processes satisfying customer service level covered by proficient SLA's between operations group and internal customers of the bank achieving the satisfaction level exceeding the target of 95%.

Operations Group adopted RPA technology in various critical operational processes to expedite end to end processes, transformed many paper-based transactions into paperless that ultimately affected the efficiency and cost.

While focusing on efficiency, cost management, enhancement, development of new products, reports and automation, Operations Group maintained the regulatory and operational controls mitigating the financial and reputational risks. Operations group is always keen to meet the business expectation for year 2020.

COMPLIANCE DEPARTMENT

The Compliance Department undertakes the task of assisting the Bank in achieving its objectives in accordance with the applicable regulations and instructions in the State of Kuwait to protect the Bank from any violations or penalties. This is clearly demonstrated in our slogan "Compliance for Growth Protection." 2019 witnessed multiple accomplishments for Compliance Department in terms of enhancing the level of compliance with the regulations and laws across the Bank and updating the policies and procedures that ensure the staff compliance and supporting their implementation. The Department has also raised staff compliance level of across the Bank.

ANTI-MONEY LAUNDERING DEPARTMENT

The Anti-Money Laundering Department (AML) monitors customers' transactions to prevent any illegal and suspicious banking activities in order to maintain the robustness and soundness of the Kuwaiti economy and protect the interests of customers and the Bank's reputation. AML Department periodically monitors the latest local and international developments in the field of combating money laundering and terrorist financing and applying them to daily activities of the Department. AML has updated the systems that assist in detecting money laundering and terrorist financing transaction and provides continuous training to all Bank employees.

HUMAN RESOURCES GROUP

Warba Bank considers human resources as a key pillar of success since the Bank's inception. For embodying this approach, the Bank has entered into a promising transformation project that heavily focuses on making more efforts in human resources initiatives to achieve the Bank's vision and objectives. The Project aims at automating all procedures and processes for focusing on participation in the Bank's strategic initiatives. In 2019, the Human Resources Strategy focused on developing career paths to render clear career future and stability for employees with outstanding performance. Warba Bank is considered a pioneer in the Kuwaitization Process.

Warba Bank has worked on attracting skilled talents and competencies from all economic sectors to meet its needs for human cadres in line with its operational plans. The Bank has been keen on keeping up with the level of competition in the banking sector by conducting studies and surveys in the labor market in general and the banking sector in particular in terms of labor salaries and remunerations schemes. These studies resulted in modification of the incentive schemes in line with best practice in the Kuwaiti and regional labor markets.

The Bank has also paid due attention for creating, improving and developing positive work environment that directly contributes to enhancing productivity and career loyalty through "Rowad" Program, that focuses on finding innovative solutions whether to create a competitive market or internally to improve the work environment. This has resulted in "Warbawi" Initiative ", Where a specialized department has been created to work on devising plans and ideas that form the first building blocks for improving communication channels amongst employees in general and between employees and the executive management in particular. That department also serves as the executive function having ongoing communication with employees on personal level through sharing in their personal occasions and accomplishments. In addition, the Bank has conducted the annual survey of the Organizational Health Index which measures organizational elements that help improve performance and work environment.

The Bank has also contributed in creating job opportunities for youth giving priority to national employment. As a result, the Kuwaitization ratio reached 74.19% at the Bank level, while exceeding 91.46% in some sectors. In line with technology and digital development, Warba Bank keeps up with digital and technological development by launching a digital platform to provide educational materials for staff to develop their skills in various fields. Thus, the bank has launched its ad-hoc future e-learning gateway.

2020 FUTURE OUTLOOK

Global Economy

The global growth slowdown that began in 2018 also had an overlaying effect in 2019. Nevertheless, the global economy is forecasted to slightly rise from 3.1% in 2019 to 3.4% in 2020. Based on IMF forecast, the growth for advanced economies comprising of the United States, Europe, China, and Japan - which together account for close to half of global GDP is projected to slow to 1.7% in 2020. The emerging market and developing economies on the other hand are projected to experience a growth pick up from 3.9% in 2019 to 4.6% in 2020 – about half of which is driven by recoveries of shallower recessions in stressed emerging markets, such as Turkey, Argentina, and Iran, and the rest by recoveries in countries where growth slowed significantly in 2019 relative to 2018, such as Brazil, Mexico, India, Russia, and Saudi Arabia. Downside risks to the outlook are elevated. Trade barriers and heightened geopolitical tensions, including Brexit-related risks, could further disrupt supply chains and hamper confidence, investment, and growth. Such tensions, as well as other domestic policy uncertainties, could negatively affect the projected growth pickup in emerging market economies and the euro area.

In 2019, global oil demand growth was unchanged despite the uncertainties that dominated in the global market and the geopolitical conditions in GCC which led to volatility in the oil prices. The average price per barrel in 2019 has been around \$62 and is expected to hover around \$58 per barrel in 2020. The global unemployment rate witnessed a decline to reach 4.9% and is predicted to further improve in 2020 by reaching 4.8%.

GCC Economy

In 2019, three of the GCC sovereigns (Bahrain, Kuwait and Saudi Arabia) made it to the list of top 10 global performers of World Bank mainly due to the domestic business and foreign investment environment. Reflective of the trends in global economy, overall real GDP growth for the GCC region weakened in 2019 to reach 0.8%. however, it is projected to increase in 2020 to reach 2.2%. The positive 2020 forecast in GDP growth is mainly due to the non-oil sector because of continued spending on mega projects including hydrocarbon projects, boosting of tourism and infrastructure related projects in multiple GCC sovereigns. Non-oil GDP growth in the GCC for 2019 was 2.4%, while the corresponding 2020 is estimated to be 2.8% mostly driven by diversified economies. Oil GDP is forecasted to witness a decline due to a weak global outlook. The main driver is the weaker than anticipated global demand expected to lower the oil prices to reach \$58 per barrel during 2020 compared to \$62 during 2019.

Kuwait Economy

In 2019, Kuwait, along with its 2 others GCC peers – Bahrain and Saudi Arabia, made it to the list of top 10 global performers of World Bank mainly due to the domestic business and foreign investment environment. Kuwait is the GCC's most oil-dependent economy. Despite the downward dip in real GDP growth to 0.6% in 2019, the real GDP growth is estimated to rebound by the end of 2020 and reach to 3.1%. The estimate is based on Kuwait's vision to diversify from an oil-based economy into a more balanced economy. The non-oil revenue sectors saw stronger growth of 3% in 2019. The service and non-oil manufacturing sectors made roughly equal contributions to growth. Wholesale and retail trade grew by 2.5% while other services, including education and healthcare, grew by 9.1%. Manufacturing surged by 10.3%, though from a small base. The non-oil GDP is projected to reach 3.5% in 2020 due to an increase in government spending on oil capacity enhancements and infrastructure programs for non-oil sectors. The infrastructure program is a major part of the "2035 New Kuwait Vision", which seeks to diversify the economy and to boost private sector participation. According to World Bank, Kuwait's fiscal deficit is expected to average 6.1% of GDP between 2019 and 2021 and by delaying the implementation of excise taxes on tobacco, energy drinks, and carbonated drinks until 2020, and the VAT until 2021, Kuwait will forego 2.3% of GDP per year in additional revenue.

Kuwait Banking Sector

The banking sector had a modest increase in its net financing income of 0.5% during 3rd quarter 2019 Q-o-Q to reach an amount of KWD 597 million. CBK discount rate, which is considered the key driver for the financing income, declined in the 3rd quarter of 2019 for the first time during 2019 to reach 2.75% following the US Federal Reserve Bank who lowered the discount rate twice in 2019. Banking in Kuwait is dominated by retail business, with personal loans/financing comprising 40% of total facilities – the largest share by sector. In 2020, the main drivers for the growth in Banking sector will comprise of oil and gas initiatives, infrastructure projects, the privatization, and SME development initiatives that will carve new expansion opportunities for local banks and spur demand for project finance supported through Kuwaiti governments' total budget of KWD 22.5 billion during 2019/2020.

Moody's Investors Service has maintained a stable outlook for the Kuwaiti banking sector for the next 12 to 18 months. In 2019, Kuwait also joined the J.P. Morgan Emerging Market Bond Index (EMBI), and Bursa Kuwait received an upgrade to emerging market status on three global equity indices.

Warba Bank

Warba Bank delivered another successful year, marked by record performance numbers, key milestones and numerous awards and accolades. In 2019, Warba sustained profitable growth across all of its business segments while deepening its presence in the market and continuing to make a mark through its digital innovations.

As part of the long-term strategy, in 2019 Warba successfully built its foundational capabilities and accomplished several important milestones. On the digital front, the Bank embarked on its digital transformation program through establishment of "Al-Wateen" – the digital factory of Warba Bank to fulfil its ambition of leading the modern digital banking era in Kuwait. With a new agile way of working, Al-Wateen accelerated innovation to deliver Warba Bank's Retail digital attacker proposition centered around a brand-new mobile banking app with a fresh design & an interface built to deliver an unmatched customer-centric banking experience. To lead in the digital banking space in Kuwait, Al-Wateen successfully launched 25+ new products & services, a few being the first of their kind domestically and in some cases regionally including "Jam3eya" – 1st fully digital social saving service with friends & family; "Hassala" - 1st digital money box in Kuwait; "Warba pocket" – 1st fully digital loyalty program in Kuwait, just to name a few.

During 2019, Warba witnessed another unprecedented achievement by issuing a USD 500 million Sukuk - the 1st senior unsecured sukuk issued by any Kuwaiti financial institution which may serve as a benchmark for any future issuers. On the investments front, the Bank concluded 15+ sizeable and strategically important transactions. On the innovation front, Warba launched Rowad 3.1 – a first of its kind innovation accelerator with 4 prestigious universities in Kuwait to establish a sustainable stream of continuous innovation. In line with its network expansion strategy, Warba also successfully commenced operations in a new branch in terminal 4 at Kuwait International Airport along with a lounge for Al Massi – its private banking segment. Warba's 2019 performance is evident through the 10 prestigious awards won during 2019 including the 'Fastest Growing Bank' for the 5th consecutive year and 'Digital Innovation' from "Banker Middle East". Warba's credit ratings were re-affirmed by Fitch Ratings for "A+" and Moody's for "Baa2" with a positive outlook from both agencies.

2020 is a very special and exciting year for Warba Bank as it marks the first decade of operations for the Bank. Warba envisions to further strengthen its position in the market as it embarks on its new journey which will be underpinned by profitable growth & expansion, operational excellence, positive organizational culture, service differentiation, and innovation.

Warba is well positioned to capitalize on key opportunities with its customers-first approach for an exceptional experience, spearheading digital innovation and continuing to meet compliance and regulatory standards. In 2020, Warba aspires to become a corporate & investment banking champion and continue excelling in the digital space. Investment in human capital is also a core priority of Warba during 2020 through several initiatives related to HR.



CORPORATE SOCIAL RESPONSIBILITY

This year, Warba Bank adopted sustainable development strategy for social responsibility. Accordingly, we focussed on areas serving the ongoing development and programs diversity in terms of gender and Geography, to achieve the essence and practices of the broad concept of corporate social responsibility in accordance with a clear, written and approved policy for serving society. The Bank has made several accomplishments for which it harvested many awards and appreciations. For applying this concept and starting with key areas of concern, the Bank provides appropriate work environment, organizes various events, spreads voluntary social awareness, gives employees more benefits that contribute to their job stability, and pays attention to the health and safety awareness for employees for maintaining safe environment.

Warba Bank is also proud of its excellence in diversifying the fields of social service by sponsoring social events, supporting small and medium size enterprises, the health sector and medical activities, and contributing in the reduction of unemployment through qualification leading to employment, attention to women employment, and encouraging female talents, programs for people with special needs, and supporting youth initiatives in line with the Bank's care for supporting students being the key pillars of the comprehensive development, and the most prominent component of sustainability that is a top priority at the Bank. The Bank has launched "Rowad" Program, the first ever of its kind in Kuwait, in its third edition on 30th September 2019 lasting for two months to adopt university students innovations. Since the launch, the Program demonstrated its capacity to stimulate capabilities and energies of Warba Bank employees to innovate more banking services and products that satisfy customers' needs.

In context of expanding the scope of participation in this Program to include university students plus the Bank employees, the Program has successfully expanded so that students are given a real opportunity to learn from experts in the banking field and to experience the difficulties and challenges that they may be exposed to, how to form a deep understanding of customer needs and try to respond to such needs by offering more innovations that contribute in making the banking experience more enjoyable and smoother for each customer.

The Bank has given the chance for third and fourth year students at Kuwait University, the Australian College, Gulf University for Science and Technology and the American University of Kuwait to participate in Rowad Program in its third edition; A specialized committee from Warba Bank selected the talented candidates from each university so that a team representing the university consisting of 5 students in any discipline would be formed later, not necessarily from the Faculty of Finance and Banking, in order to compete among themselves.

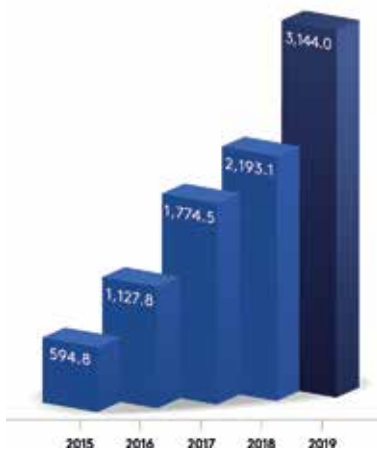
The program lasted for 10 weeks, with several workshops to enrich students' knowledge in this field and to provide them with all the necessary knowledge in the banking sector in order to make it easy for them to develop innovative services and products that enrich the banking sector.

Under the framework of Warba Bank's leading Program for Corporate Social Responsibility and its strong belief in the importance of supporting young people, the Bank launched its unique exhibition in Kuwait titled "Warba Tech City" opening its doors in the Murooj Complex. The exhibition included 50 pavilions for youth entrepreneurs of digital, small and medium projects in order to display their own products. This initiative comes as a translation of the Amiri directives to support Kuwaiti youth and in line with Warba Bank social and national responsibility to support youth medium and small projects in digital services, as many of the participating projects are mainly partners to Warba Bank such as Warba Customer Rewards Program.

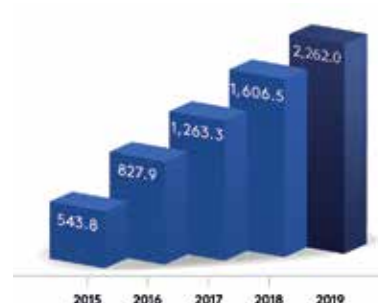
On the one hand, the activities of the Bank during the holy month of Ramadan included various aspects of life, such as giving and donation campaigns, others to preserve the health of the body and mind during fasting, the dissemination of Islamic culture through social media and launching the first event of "Fayez" application for walking. During the holy month, the Bank intensified its competitions inspired by the wonderful Islamic civilization and culture on Instagram, contributing in the enhancement of followers' information.

KEY INDICATOR

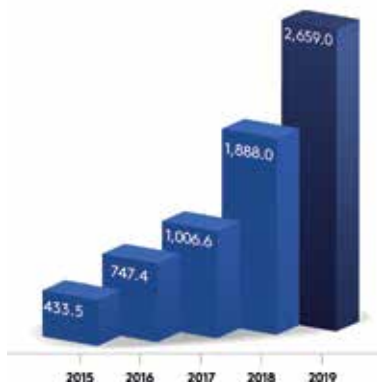
The total revenues for the year 2019 reached KD 123.7 million, at a growth rate of 40% compared to the revenues at the end of 2018. The total assets of the Bank grew to KD 3.144 billion at the end of 2019 at growth rate of 43% at the end of 2019 while customers' deposits reached KD 2.659 billion at a growth rate of 41%. The Bank realized profits of KD 16.538 million for the year 2019 at a growth rate of 30%. The Bank's capital adequacy ratio recorded 18.49%, 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.



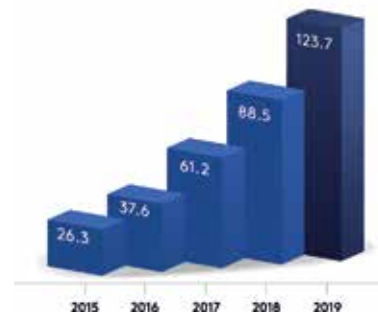
Total Assets



Financing to Customers



Customer Deposits



Total Revenues





Governance Report

Obtainment of license for asset management for establishing a new line of business for the Bank.

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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 that compliance with regulations has become a deeply rooted culture across the Bank. In addition, the Central Bank of Kuwait has issued an update to its instructions concerning corporate governance rules and regulations at Kuwaiti banks in September 2019. Warba Bank has come a long way since the issuance of the last instructions in meeting the new requirements: Board and Board Committees Charters have been updated to satisfy the new requirements, and work is in progress to meet the remaining requirements for the appointment of independent members in the Board of Directors and other new requirements as mandated by the instructions within the prescribed deadline of 06/30/2019.

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.

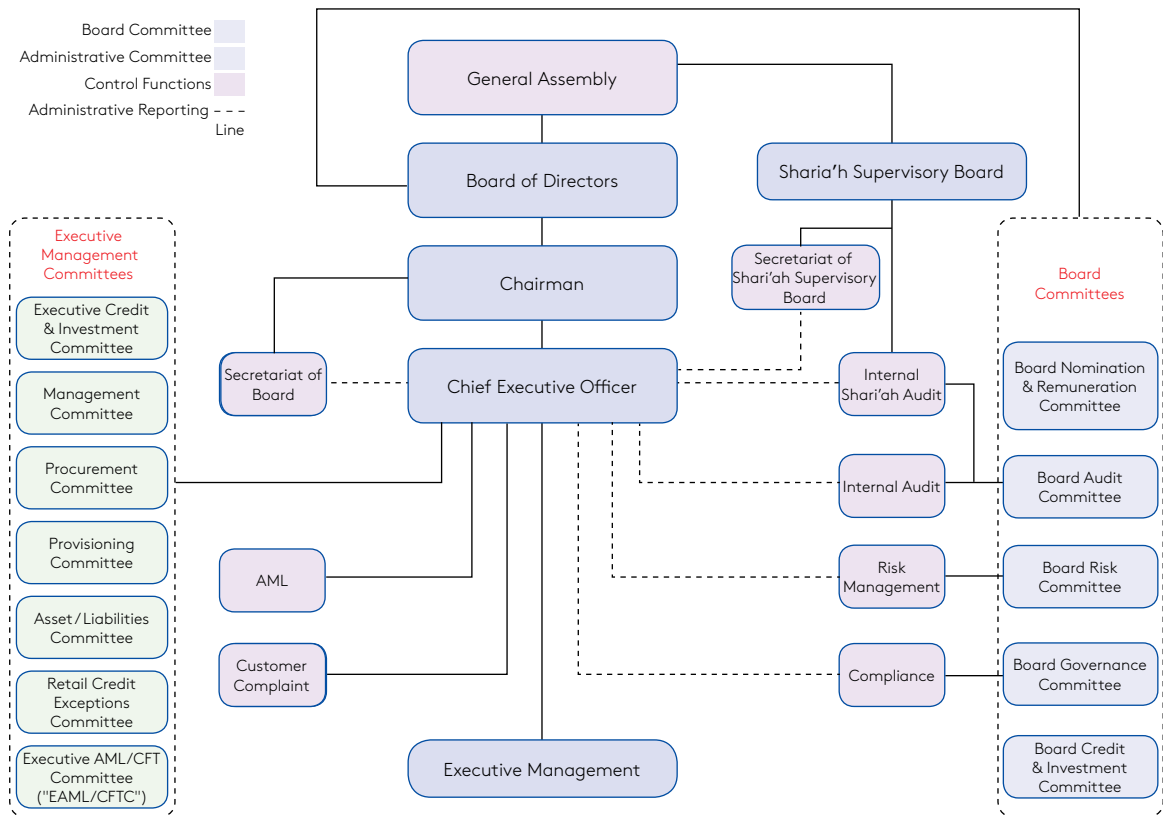
Therefore, Warba Bank prides itself on having a robust and sound governance framework, based on regulatory instructions, that helps to apply best practices of sound governance.

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

Name	Shareholding Percentage
Kuwait Investment Authority	24% Direct - 1.515% Indirect
The Public Institution for Social Security (PIFSS)	7.923% Indirect
Al Sayer Group Holding Company	10.006% Direct
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 – taking 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. The Bank's organizational structure has been updated to cover all CBK requirements. The last update was made on 13/10/2019.



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 as well as the updates to these instructions by CBK on 10/9/2019. 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 2019

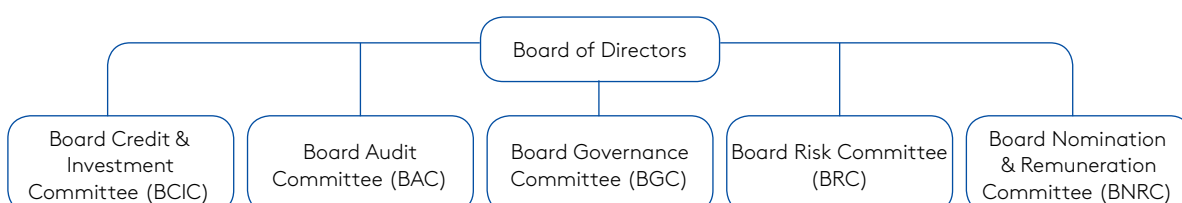
Warba Bank pays utmost care to training programs to members of the Board of Directors as these programs are pivotal in developing leadership skills. During 2019, the Bank arranged a training program on corporate governance, anti-money laundering and terrorist financing in cooperation with a specialized advisory training agency. In addition the bank arranged for the Sharia Training Program provided by a member of the Sharia Supervisory Board pointing out the differences between Islamic banks and conventional banks. The members were also provided with an electronic training program to raise their awareness of Cybersecurity issues. A number of the Board members has been given the chance to attend The International Banking Conference "Shaping the Future" organized by the Central Bank of Kuwait.

BOARD MEMBERS FOR THE FOURTH SESSION (2019 – 2021)

At the Ordinary General Assembly meeting held on 20 March 2019 for the fiscal year ended 31 December 2018, the Bank's Board of Directors has been elected composing of 10 members for the Fourth Session (2019-2021).

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.





1. BOARD CREDIT & 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. Hisham A. Al Rezouqi Chairman
- Mr. Yousef Ibrahim Al Ghanim Vice Chairman
- Mr. Bader Khalid Al Shalfan Member
- Mr. Abdulaziz A. Al Jaber Member

2. BOARD AUDIT COMMITTEE (BAC)

The Committee reviews the scope, effect and extent of adequacy of the internal and external audit at the Bank as well as key accounting issues of material impacts on the Bank's financial information and internal controls. It ensures sufficiency of the resources designated for control functions. It reviews the Bank's financial statements before submission to the Board of Directors 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. Mohammad A. Saleem Chairman
- Mr. Musab Omar Al Fulajj Vice Chairman
- Mr. Mohamed Hamed Al-Shalfan Member
- Mr. Mohamed Riyad Al Mutawa Member

3. 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;

- Mr. Abdulwahab A. Al Houti Chairman
- Mr. Mohammad A. Saleem Vice Chairman
- Mr. Bader Khalid Al Shalfan Member (From 20 March to 13 November 2019) *
- Mr. Hamad Musaed Al Sayer Member

* This is in accordance with the Board of Directors' decision in the meeting dated 13 November 2019 approving the request of the Board member Mr. Bader Khalid Al Shalfan to waive membership in BGC and join BNRC instead.

4. 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;

- Mr. Mohamed Hamed Al Shalfan Chairman
- Mr. Mohamed Riyad Al Mutawa Vice Chairman
- Mr. Hisham A. Al Rezouqi Member
- Mr. Yousef Ibrahim Al Ghanim Member

5. BOARD NOMINATIONS & 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 is composed of the following members;

- Mr. Hamad Musaed Al Sayer Chairman
- Mr. Abdulaziz Abdullah Al Jaber Vice Chairman
- Mr. Bader Khalid Al-Shalfan Member (From 13/11/2019 as indicated in the Note to the BGC)
- Mr. Musab Omar Al Fulajj Member

ATTENDANCE AT MEETINGS OF THE BOARD AND THE COMMITTEES OF THE BOARD FOR THE PERIOD FROM 1 JANUARY 2019 TO 31 DECEMBER 2019

From 1/1/2019 to 20/3/2019

s. Member	Position	BoD	BCIC	BAC	BRC	BGC	BNRC
1. Abdulwahab A. Al Houti	Chairman	2				1	
2. Sami F. Al Rushaid	Vice Chairman	2	6				2
3. Ahmad A. Al Ghannam	Member	2	7		0		
4. Abdulaziz A. Al Jaber	Member	1	7				2
5. Eid Nasser Al Rashidi	Member	2				1	
6. Mohamed R. Al Mutawa	Member	2		3	1		
7. Mohammad A. Saleem	Member	2		3		1	
8. Musaab Omar Al Fulajj	Member	2		2			2
9. Hani A. Hussain	Member	2			1	1	
10. Hisham A. Al Rezouqi	Member	2	6		1		
Total Number of Board & Committees' meetings during the period		2	7	3	1	1	2

From 20/3/2019 to 31/12/2019

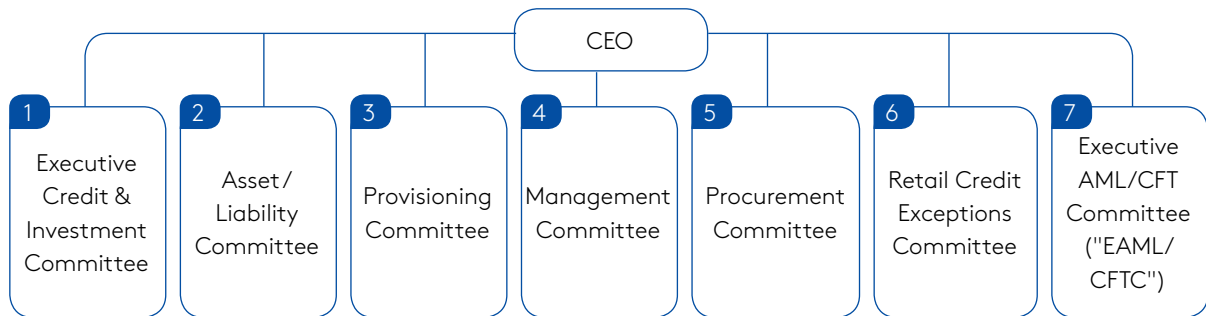
s. Member	Position	BoD	BCIC	BAC	BRC	BGC	BNRC
1. Abdulwahab A. Al Houti	Chairman	11				2	
2. Hamad M. Al Sayer	Vice Chairman	12				5	6
3. Bader K. Al Shalfan*	Member	12	18			4	2
4. Abdulaziz A. Al Jaber	Member	7	17				6
5. Mohamed H. Al Shalfan	Member	12		6	6		
6. Mohamed R. Al Mutawa	Member	12		6	6		
7. Mohammad A. Saleem	Member	11		5		5	
8. Musaab Omar Al Fulajj	Member	10		4			5
9. Hisham A. Al Rezouqi	Member	8	15		5		
10. Yousef Ibrahim Al Ghanim	Member	10	18		6		
Total Number of Board & Committees during the period		12	18	6	6	5	6
Total Number of Board & Committees' meetings in 2019		14	25	9	7	6	8

* Membership of Mr. Bader K. Al-Shalfan in the BGC lasted from 20 March 2019 till 13 November 2019 when the Board of Directors' in its meeting dated 13 November 2019 approved the request of the Board member Mr. Bader to waive membership in BGC and join BNRC instead.



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. Most of the committees are chaired by Mr. Shaheen Hamad Alghanim, The Bank’s CEO.



1. EXECUTIVE CREDIT & 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 & 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.

2. 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.

3. 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 Audit Committee (BAC) and Board of Directors.

4. 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.

5. 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.

6. 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.

7. EXECUTIVE AML/CFT COMMITTEE ("EAML/CFTC")

Warba Bank, in implementation of CBK instructions dated 28 August 2019, has established a committee for reporting suspicious transactions. The committee's role is to take the final decision on suspicious cases that the Bank should report to the Kuwaiti Financial Investigation Unit. The Committee is composed of four members headed by the AML/CFT Officer and membership of the Regulatory Division, the legal Department and the Retail Banking Group. The committee prepares a quarterly report of all suspicious transactions agreed by the Committee for submission to Kuwait Financial Intelligence Unit and submitted to the Board Risk Committee and Board of Directors.

THE EXECUTIVE MANAGEMENT

S	Name	Title	Experience in years	Nationality	Education
1.	Shaheen Hamad Al-Ghanem	Chief Executive Officer	31	Kuwait	Master
2.	Khaled Hasan Hafez	Chief Financial Officer	26	Egypt	Bachelor
3.	Paul Quigley	Chief Risk Officer	41	Ireland	Doctorate
4.	Mahmoud Mohammad Yousef	Chief Internal Auditor	39	Egypt	Bachelor
5.	Simon Larby Clements	Chief Retail Banking Officer	44	British	Bachelor
6.	Haytham Abdulaziz Al Terkait	Chief Information Technology Officer	31	Kuwait	Bachelor
7.	Mohamed Iqbal	Treasurer	31	Malaysia	Bachelor
8.	Mohamed Atif El Shareef	Chief Strategy and Digitation Officer	20	Palestine	Master
9.	Abdul Aziz Al Haqan	Deputy Chief Operations Officer	18	Kuwait	Bachelor
10.	Thuwaini K. AlThuwaini	Chief Investment Banking Officer	14	Kuwait	Bachelor
11.	Mazen Khalid Mandani	Acting Chief Corporate Banking Officer	21	Kuwait	Bachelor
12.	Abdullah Jassem Hamada	Acting Chief Human Resources & General Services Officer	14	Kuwait	Bachelor

COMPENSATION POLICY (SALARY & REMUNERATION)

The Bank's Compensation Policy (salaries and remunerations) is in line with the strategies set by the Board of Directors in accordance with the provisions of the Labor Law in the Private Sector, the Corporate Governance mandates issued by the Central Bank of Kuwait and the recommendations of the Nomination and Remuneration Committee. This policy is in line with the best international practices that encourage and reward employees for their outstanding performance. In addition, Compensation is a significant factor in attracting caliber, with expertise and efficiency, from various companies and sectors to work for Warba Bank. The Bank is keen to regularly update this policy. Such updates are clearly demonstrated by "indicators" specifically designed to reflect the performance of individual or team activities. They also provide flexibility to cope with labor market variables, requirements and benchmarks according to organized and standard methodology. The Bank has set financial performance measures for revenue, profits, cash flow, or return on equity-based objectives, and other economic objectives associated with risk-Adjusted Return on Capital (RAROC). The Bank has set non-financial or non-economic performance measures that assess compliance with internal controls, teamwork, or other qualitative criteria for evaluating staff non-financial and non-economic contributions. The Bank has paid great attention for updating these measures given the fact that the human capital has much more to offer other than financial and economic contributions.

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 several items given to the employees. Such items are divided into two categories:

- Basic salary paid monthly to the employee and determined according to the job evaluation rating and the Bank's grading system.
- Allowances: amounts paid monthly to employee along with the salary as per employee's nature of work.
- Annual Bonus: Reward given to the employee at the yearend depending on employee's performance assessment.
- Incentives: They are schemes set for motivating staff for production increase and performance improvement.
- Other benefits 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 & Remunerations Committee and approved by the Board of Directors. The Nominations & Remunerations Committee held 8 meetings for the year ended 31/12/2019.

The Bank has engaged an external consultant (PWC) to carry out a comprehensive review of the Bank's compensation policy, schemes and procedures. The external consultant concluded that Warba Bank is in compliance with the implementation of the Compensation Policy and procedures in accordance with CBK instructions concerning Sharia's Governance Rules in Kuwaiti Islamic Banks issued in December 2016 and the Corporate Governance Rules issued in September 2019.

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 2019 amounted KD 125 Thousand.

Second: Compensations 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 2019 including the CEO, CFO, CRO, CIA amounted KD 1,588,917.94 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 2019 (CEO and his deputies and / or other senior executives whose appointment is subject to the approval of the regulatory and supervisory bodies, i.e., 13 individuals amounted KD 2,297,993.44 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 KD1,098,704.37 inclusive of basic salaries, allowances, entitlements and end of service benefits.

Total compensations paid to the risk takers employees i.e., 18 employees, amounted KD 2,010,019.85 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 assume the ultimate responsibility and accountability for the risks taken.

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, CBK instructions dated 23/7/2013, any other subsequent regulatory guidelines, if required, as well as the latest instructions dated 14/5/2019 concerning AML/CFT. 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 on risk-based 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 quarterly training to be familiarized with the patterns used in AML/CFT transactions issued by the KFIU. Also, staff are given guidance and tools that enable them to 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. In implementation of CBK instructions dated 28/8/2019, the Bank has set an AML/CFT Committee for taking the final decision concerning suspicious transactions and reporting them to KFIU.

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 approved by the Ministry of Finance has been engaged to act as the Bank's consultant for verifying the implementation of the law requirements and reviewing the FATCA report for 2018 to technically verify the report accordance and accuracy. The FATCA report has been successfully uploaded before deadline to the Ministry of Finance website during August 2019.

As for implementing the agreement of the Common Reporting Standards signed by the State of Kuwait on 19/08/2016 and the ministerial resolutions issued in this regard, Warba Bank is committed to implementing this agreement and the required amendments to the procedures, policies and forms that should be filled in to prepare the reports required to be uploaded to the Ministry of Finance website in line with the terms of the agreement. An audit firm, approved by the Ministry of Finance, has been engaged to review the Bank's processes to determine the extent of the Bank's commitment with the requirements of the Common Reporting Standards thus, the Bank's CRS Report for 2018 has been prepared and sent to Ministry of Finance in due time in May 2019 and successfully uploaded in 2019 to the Ministry of Finance website in due time.



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 the Regulatory Division which undertakes compliance tasks in the Bank. The Bank has in place comprehensive policies and procedures to ensure full compliance with CBK's instructions and other regulatory authorities. Regulatory Division 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 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 & Transparency Department under Regulatory Division 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 key 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 2019 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 2019 for conducting independent review report on the Bank's internal controls for 2018. The report was presented to the Board Audit Committee and the Board of Directors in the Meeting held on 23/6/2019. The report, submitted to the CBK on 25/6/2019, indicated that the Bank has set accounting registers, other records, internal controls and processes as per the requirements of general guidelines manual issued by CBK on 15/6/2003 and CBK circular dated 14/1/2019. The issues raised in the report have no material impact on the fair presentation of the Bank's financial statements for 2018. The actions taken by the Bank, for remedy of the issues raised in the report, were satisfactory. As per the follow-up reports issued by The External Auditor's for the periods ended 30/9/2019 and 31/12/2019 concerning the follow - up of the findings in the internal control review report for the year ended 31/12/2018, have concluded that all findings in the said report had been resolved except two issues due on the 1st Q2020.

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

23 June 2019

Dear Sirs,

Report on Accounting and Other Records and Internal Control Systems

In accordance with our letter of engagement dated 20 February 2019, 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 2018.

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 14 January 2019 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 2018, 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 14 January 2019,
- B. The findings raised in the examination and assessment of the internal controls do not have a material impact on the fair presentation of the financial statements of the bank for the year ended 31 December 2018, 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

Launch of a brand-new Investor Relations information portal to provide comprehensive IR content coverage for the Bank.

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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 2019, Tier 1 "Core Capital" amounted to KD 294,360 thousand (2018: KD 270,928 thousand), and Tier 2 "Supplementary Capital" amounted to KD 20,098 thousand (2018: KD 13,803 thousand) as detailed below:

Capital Structure	2019 (KD'000)	2018 (KD'000)
Tier (1) Capital		
A Common Equity Tier 1 (CET1)		
Directly issued qualifying common share capital plus related stock surplus	190,000	190,000
Eligible Minority Interest in Consolidated Subsidiaries	-	-
Retained earnings (loss)	10,061	7,779
Other reserves	10,436	(3,214)
Proposed dividends	7,500	-
Total (A) CET1 before deductions	217,997	194,565
Deductions from CET1		
Treasury shares	-	-
Dividends (Declared but not incurred)	-	-
Goodwill	-	-
Other deductions	-	-
Total (A) CET1 after deductions	217,997	194,565
B Additional Tier 1 (AT1)	76,363	76,363
Deduction from AT1	-	-
Total (B) AT1 after deductions	76,363	76,363
Total (A+B) Tier 1 after Deductions	294,360	270,928
Tier (2) Supplementary Capital		
1- Capital Eligible as T2	-	-
2- General provisions	20,098	13,803
Total Tier (2) Supplementary Capital before deductions	20,098	13,803
Deduction from Tier (2) Supplementary Capital	-	-
Total Tier (2) Supplementary Capital after deductions	20,098	13,803
	-	-
Total Available Capital (Tier 1 & Tier 2) before adjustments	314,458	284,731
Other Adjustments	-	-
Total Available Capital (Tier 1 & Tier 2) After adjustments	314,458	284,731

As at 31 December 2019, Profit Equalization Reserve and Investment Risk Reserve amounted to KD Nil (2018: 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	2019 (KD'000)	2018 (KD'000)
Common Equity Tier 1 capital: instruments and reserves		
1	190,000	190,000
2	10,061	7,779
3	10,436	(3,214)
4	-	-
5	-	-
6	7,500	-
7	217,997	194,565
Common Equity Tier 1 capital: regulatory adjustments		
8	-	-
9	-	-
10	-	-
11	-	-
12	-	-
13	-	-
14	-	-
15	-	-
16	-	-
17	-	-
18	-	-
19	-	-
20	-	-
21	-	-
22	-	-
23	-	-
24	-	-
25	-	-
26	-	-
27	-	-
28	-	-
29	-	-
30	217,997	194,565

Item	2019 (KD'000)	2018 (KD'000)	
Additional Tier 1 capital: instruments			
31	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	76,363	76,363
32	of which: classified as equity under applicable accounting standards	76,363	76,363
33	of which: classified as liabilities under applicable accounting standards	-	-
34	Directly issued capital instruments subject to phase out from Additional Tier 1	-	-
35	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)	-	-
36	of which: instruments issued by subsidiaries subject to phase-out	-	-
37	Additional Tier 1 capital before regulatory adjustments	76,363	76,363
Additional Tier 1 capital: regulatory adjustments			
38	Investments in own Additional Tier 1 instruments	-	-
39	Reciprocal cross-holdings in Additional Tier 1 instruments	-	-
40	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)	-	-
41	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	-
42	National specific regulatory adjustments	-	-
43	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	-
44	Total regulatory adjustments to Additional Tier 1 capital	-	-
45	Additional Tier 1 capital (AT1)	76,363	76,363
46	Tier 1 capital (T1 = CET1 + AT1)	294,360	270,928
Tier 2 capital: instruments and provisions			
47	Directly issued qualifying Tier 2 instruments plus related stock surplus	-	-
48	Directly issued capital instruments subject to phase-out from Tier 2	-	-
49	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)	-	-
50	of which: instruments issued by subsidiaries subject to phase-out	-	-
51	General provisions included in Tier 2 capital	20,098	13,803
52	Tier 2 capital before regulatory adjustments	20,098	13,803
Tier 2 capital: regulatory adjustments			
53	Investments in own Tier 2 instruments	-	-
54	Reciprocal cross-holdings in Tier 2 instruments	-	-
55	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)	-	-
56	Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	-
57	National specific regulatory adjustments	-	-
58	Total regulatory adjustments to Tier 2 capital	-	-
59	Tier 2 capital (T2)	20,098	13,803
60	Total capital (TC = T1 + T2)	314,458	284,731
61	Total risk weighted assets (after applying 50% additional weighting)	1,700,820	1,173,468

Item		2019 (KD'000)	2018 (KD'000)
Capital ratios and buffers			
62	Common Equity Tier 1 (as a percentage of risk weighted assets)	12.82%	16.58%
63	Tier 1 (as a percentage of risk weighted assets)	17.31%	23.09%
64	Total capital (as a percentage of risk weighted assets)	18.49%	24.26%
65	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus D-SIB buffer requirement, expressed as a percentage of risk weighted assets)	9.50%	9.50%
66	of which: capital conservation buffer requirement	2.50%	2.50%
67	of which: bank specific countercyclical buffer requirement	0.00%	0.00%
68	of which: D-SIB buffer requirement	0.00%	0.00%
69	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	5.00%	8.76%
National minimal			
70	National Common Equity Tier 1 minimum ratio: 9.5%	161,578	111,479
71	National Tier 1 minimum ratio: 11%	187,090	129,081
72	National total capital minimum ratio excluding CCY and DSIB: 13%	221,107	152,551
Amounts below the thresholds for deduction (before risk weighting)			
73	Non-significant investments in the capital of other financials	-	-
74	Significant investments in the common stock of financials	-	-
75	Mortgage servicing rights (net of related tax liability)	-	-
76	Deferred tax assets arising from temporary differences (net of related tax liability)	-	-
Applicable caps on the inclusion of provisions in Tier 2			
77	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)	29,647	22,041
78	Cap on inclusion of provisions in Tier 2 under standardized approach	20,098	13,803
79	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	-	-
80	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	-	-

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 & 2 of the reconciliation requirements:

31 December 2019

Step 1 & 2 of the reconciliation requirements	Balance sheet as in published financial statements (KD'000)	Under regulatory scope of consolidation (KD'000)	Reference
Assets			
Cash and balances with banks	102,544	102,544	
Placements with banks and CBK	225,703	225,703	
Financing receivables	2,261,974	2,261,974	
of which maximum general provisions (netted above) capped for Tier 2 inclusion	20,098	20,098	a
Financial assets at fair value through profit or loss	55,895	55,895	
Financial assets at fair value through other comprehensive income	323,062	323,062	
Investments in joint ventures	91,007	91,007	
Investment properties	20,798	20,798	
Others assets	39,897	39,897	
Property and equipment	22,803	22,803	
Total Assets	3,143,683	3,143,683	
Liabilities			
Due to banks	338,241	338,241	
Depositors accounts	2,320,872	2,320,872	
Issued Sukuk	152,179	152,179	
Other liabilities	33,900	33,900	
Total Liabilities	2,849,323	2,849,323	
Equity			
Share Capital	150,000	150,000	b
Share Premium	40,000	40,000	c
Statutory Reserve	3,098	3,098	d
Retained Earnings	10,061	10,061	
of which retained earnings eligible for (CET1)	10,061	10,061	e
Fair value reserve	7,211	7,211	f
Forex reserve	127	127	g
Proposed dividends	7,500	7,500	h
Equity attributable to Shareholders of the Bank	217,997	217,997	
Perpetual Tier 1 Sukuk	76,363	76,363	i
Total Equity	294,360	294,360	
Total Liabilities and Equity	3,143,683	3,143,683	



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
Common Equity Tier 1 capital: instruments and reserves			
1	Share Capital	150,000	b
2	Share Premium	40,000	c
3	Statutory Reserve	3,098	d
4	Retained Earnings	10,061	e
5	Fair value reserve	7,211	f
6	Forex Reserve	127	g
7	Proposed dividends	7,500	h
8	Common Equity Tier 1 capital (CET1)	217,997	
Additional Tier 1 capital: Instruments			
9	Perpetual Tier 1 Sukuk	76,363	i
10	Additional Tier 1 capital	76,363	
11	Tier 1 Capital (Tier 1 = Common Tier 1 capital + Additional Tier 1 capital)	294,360	
Tier 2 Capital : Instruments and provisions			
12	Tier 2 Instruments	-	
13	General provisions included in Tier 2 capital	20,098	a
14	Tier 2 Capital	20,098	
15	Total Capital (Total capital = Tier 1 + Tier 2)	314,458	

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:**2019**

No.	Ratio Description	Total Required Capital (%)	Available Capital (%)
1.	Total Capital Adequacy Ratio	13.00%	18.49%
2.	Tier 1 Capital Adequacy Ratio	11.00%	17.31%
3.	CET1 Capital Adequacy Ratio	9.50%	12.82%

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%

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	2019 KD'000	2018 KD'000
No. On-balance sheet exposures		
1. On-balance sheet items (excluding Sharia compliant hedging contracts, but including collaterals)	3,172,521	2,214,502
2. (Asset amounts deducted in determining Basel III Tier 1 capital)	-	-
3. Total on-balance sheet exposures (excluding Sharia compliant hedging contracts) (sum of lines 1 and 2)	3,172,521	2,214,502
Exposures to Sharia compliant hedging contracts		
4. Replacement cost associated with all Sharia compliant hedging contracts (i.e. net of eligible cash variation margin)	1,439	664
5. Add-on amounts for potential future exposures "PFE" associated with all Sharia compliant hedging contracts	113	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)	1,552	908
Other off-balance sheet exposures		
10. Off-balance sheet exposure (before any adjustment for credit conversion factors)	934,250	120,719
11. (Adjustments for conversion to credit equivalent amounts)	(841,304)	(70,321)
12. Off-balance sheet items (sum of lines 10 and 11)	92,946	50,398
Capital and total exposures		
13. Tier 1 capital	294,360	270,928
14. Total exposures (sum of lines 3, 9 and 12)	3,267,019	2,265,808
Leverage ratio		
15. leverage ratio (Tier 1 Capital (13)/total exposures (14))	9.01%	11.96%

As stated above, the Bank's leverage ratio for the present period is 9.01% compared to 11.96% in the previous year. The decrease in the leverage ratio is mainly ascribed to the following:

- The increase in on-balance sheet and off-balance sheet exposures was due to the increase in the Bank's assets, unpaid liabilities and letters of guarantee issued for the customers.

Summary comparison of accounting assets versus leverage ratio exposure measure:

Item	2019 KD'000	2018 KD'000
No. On-balance sheet exposures		
1 Total assets as per published financial statements	3,143,683	2,193,069
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	1,552	908
5 Off-balance sheet exposures (i.e. equivalent credit amounts)	92,946	50,398
6 Other exposures	28,838	21,433
7 Total exposures in calculation of leverage ratio (sum of the above items).	3,267,019	2,265,808

FOURTH: RISK WEIGHTED ASSETS

1. Credit risk

The minimum required capital for credit risk exposures as at 31 December 2019 was KD 207,774 thousand (31 December 2018: KD 142,484 thousand) as detailed below:

2019

(KD'000)

SN	Description of Credit Risk Exposures	Total Exposures	Net Exposures	Risk-Weighted Assets	Required Capital
1	Cash item	6,866	6,866	-	-
2	Claims on sovereigns	226,689	226,689	54,001	7,020
3	Claims on international organizations	-	-	-	-
4	Claims on public sector entities	101,844	101,844	11,208	1,457
5	Claims on multilateral development banks	78,507	78,507	-	-
6	Claims on banks	358,791	358,791	77,214	10,038
7	Claims on corporates	1,712,238	1,469,315	895,404	116,403
8	Regulatory retail exposure	399,025	390,069	233,021	30,293
9	Qualifying residential housing financing facilities	-	-	-	-
10	Past due exposures	11,854	6,676	2,432	316
11	Goods and commodities positions	745	745	446	58
12	Real estate investments	111,805	111,805	133,686	17,379
13	Investment and financing with customers	109,462	96,002	85,673	11,137
14	Sukuk and taskeek exposures	-	-	-	-
15	Claims on central counterparties.	-	-	-	-
16	Other exposures	149,193	149,193	105,177	13,673
Total		3,267,019	2,996,502	1,598,263	207,774

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

The minimum required capital for financing receivable as at 31 December 2019 was KD 154,986 thousand (31 December 2018: KD 110,070 thousand) as detailed below:

2019
(KD'000)

SN	Description of Credit Risk Exposures	Total Exposures	Net Exposures	Risk-Weighted Assets	Required Capital
1	Claims on sovereigns	43,675	43,675	13,512	1,756
2	Claims on public sector institutions	88,936	88,936	3,613	470
3	Claims on banks	74,527	74,527	25,080	3,260
4	Claims on corporates	1,563,219	1,320,754	817,068	106,219
5	Regulatory retail exposure	398,879	389,923	241,249	31,362
6	Qualifying residential housing financing facilities	-	-	-	-
7	Past due exposures	11,839	6,674	2,587	336
8	Investment and financing with customers	109,462	96,002	89,097	11,583
Total		2,290,537	2,020,491	1,192,206	154,986

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

2. Market Risk

Market Risk-weighted exposure during the financial year 2019 amounted to KD 3,644 thousand (31 December 2018: KD 3,163 thousand), based on the standardized approach. The minimum required capital for market risk exposures amounts to KD 474 thousand (31 December 2018: KD 411 thousand).

3. Operational Risk

Operational Risk-weighted exposures calculated during the year 2019 amounted to KD 98,913 thousand (31 December 2018: KD 74,275 thousand) as per the Basic Indicator Approach. The minimum required capital for operational risk exposures amounts to KD 12,859 thousand (31 December 2018: KD 9,656 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 the 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 & Investment Committee (the 'BCIC'). At the management-level, the following committees are setup to assist the Board in fulfilling its responsibilities: the Executive Credit & 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') who reports to the BRC, is responsible for Enterprise-wide Risks and assisting 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 & 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 & 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 & liabilities, asset allocation, liability structure, funding diversification & cost-effectiveness, asset & 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 & 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 & 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 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)

2019

(KD'000)

SN	Description of Credit Risk Exposures	Net Credit Exposure	Rated Exposures	Unrated Exposures
1	Cash item	6,866	-	6,866
2	Claims on sovereigns	226,689	222,209	4,480
3	Claims on international organizations	-	-	-
4	Claims on public sector entities	101,844	5,839	96,005
5	Claims on multilateral development banks	78,507	78,507	-
6	Claims on banks	358,791	320,078	38,713
7	Claims on corporates	1,712,238	78,666	1,633,572
8	Regulatory retail exposure	399,025	-	399,025
9	Qualifying residential housing financing facilities	-	-	-
10	Past due exposures	11,854	-	11,854
11	Goods and commodities positions	745	-	745
12	Real estate investments	111,805	-	111,805
13	Investment and financing with customers	109,462	-	109,462
14	Sukuk and taskeek exposures	-	-	-
15	Claims on central counterparties.	-	-	-
16	Other exposures	149,193	-	149,193
Total		3,267,019	705,299	2,561,720

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

Total Credit Risk Exposures (Self-Financed and Financed from Investment Accounts):

2019
(KD'000)

SN	Description of Credit Risk Exposures	Credit Risk Exposures	Self Financed	Financed From Investment Accounts
1	Cash item	6,866	6,866	-
2	Claims on sovereigns	226,689	50,377	176,312
3	Claims on international organizations	-	-	-
4	Claims on public sector entities	101,844	19,932	81,912
5	Claims on multilateral development banks	78,507	15,365	63,142
6	Claims on banks	358,791	143,505	215,286
7	Claims on corporates	1,712,238	385,267	1,326,971
8	Regulatory retail exposure	399,025	78,099	320,926
9	Qualifying residential housing financing facilities	-	-	-
10	Past due exposures	11,854	2,332	9,522
11	Goods and commodities positions	745	146	599
12	Real estate investments	111,805	21,881	89,924
13	Investment and financing with customers	109,462	21,423	88,039
14	Sukuk and taskeek exposures	-	-	-
15	Claims on central counterparties.	-	-	-
16	Other exposures	149,193	80,262	68,931
Total		3,267,019	825,455	2,441,564

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

Average exposures (Self-Financed and Financed from Unrestricted Investment Accounts) on a quarterly basis:

2019

(KD'000)

SN	Description of Credit Risk Exposures	Average Credit Risk Exposures	Average Self Financed	Average Financed From Investment Accounts
1	Cash item	6,374	6,374	-
2	Claims on sovereigns	265,483	75,978	189,505
3	Claims on international organizations	-	-	-
4	Claims on public sector entities	62,658	11,469	51,189
5	Claims on multilateral development banks	30,476	5,695	24,781
6	Claims on banks	400,423	161,745	238,678
7	Claims on corporates	1,528,776	320,848	1,207,928
8	Regulatory retail exposure	372,813	67,097	305,716
9	Qualifying residential housing financing facilities	-	-	-
10	Past due exposures	12,793	2,313	10,480
11	Goods and commodities positions	2,679	492	2,187
12	Real estate investments	100,535	18,106	82,429
13	Investment and financing with customers	75,943	13,769	62,174
14	Sukuk and taskeek exposures	-	-	-
15	Claims on central counterparties.	-	-	-
16	Other exposures	117,767	67,041	50,726
Total		2,976,720	750,927	2,225,793

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
Total		2,055,542	420,622	1,634,920

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

2019

(KD'000)

SN	Description of Credit Risk Exposures	MENA	North America	Europe	Asia	Others	Total
1	Cash item	6,866	-	-	-	-	6,866
2	Claims on sovereigns	211,242	-	10,187	5,260	-	226,689
3	Claims on international organizations	-	-	-	-	-	-
4	Claims on public sector entities	90,156	-	-	11,688	-	101,844
5	Claims on multilateral development banks	78,507	-	-	-	-	78,507
6	Claims on banks	225,808	6,783	109,937	16,263	-	358,791
7	Claims on corporates	1,601,390	39,702	17,503	51,616	2,027	1,712,238
8	Regulatory retail exposure	399,025	-	-	-	-	399,025
9	Qualifying residential housing financing facilities	-	-	-	-	-	-
10	Past due exposures	11,854	-	-	-	-	11,854
11	Goods and commodities positions	745	-	-	-	-	745
12	Real estate investments	10,378	73,289	28,138	-	-	111,805
13	Investment and financing with customers	104,873	4,589	-	-	-	109,462
14	Sukuk and taskeek exposures	-	-	-	-	-	-
15	Claims on central counterparties.	-	-	-	-	-	-
16	Other exposures	113,725	28,337	7,131	-	-	149,193
Total		2,854,569	152,700	172,896	84,827	2,027	3,267,019

2018

(KD'000)

SN	Description of Credit Risk Exposures	MENA	North America	Europe	Asia	Others	Total
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

Maturities of total "Credit Risk" exposures**2019****(KD'000)**

SN	Description of Credit Risk Exposures	Up to 3 months	3 to 12 months	Over 1 year	Total
1	Cash item	6,866	-	-	6,866
2	Claims on sovereigns	81,296	24,101	121,292	226,689
3	Claims on international organizations	-	-	-	-
4	Claims on public sector entities	17,803	82,821	1,220	101,844
5	Claims on multilateral development banks	-	-	78,507	78,507
6	Claims on banks	325,589	8,379	24,823	358,791
7	Claims on corporates	1,066,434	539,088	106,716	1,712,238
8	Regulatory retail exposure	3,780	6,593	388,652	399,025
9	Qualifying residential housing financing facilities	-	-	-	-
10	Past due exposures	11,854	-	-	11,854
11	Goods and commodities positions	-	745	-	745
12	Real estate investments	-	-	111,805	111,805
13	Investment and financing with customers	92,127	16,121	1,214	109,462
14	Sukuk and taskeek exposures	-	-	-	-
15	Claims on central counterparties.	-	-	-	-
16	Other exposures	17,936	2,878	128,379	149,193
Total		1,623,685	680,726	962,608	3,267,019

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
Total		1,163,322	466,714	635,772	2,265,808

Main sectors of total Credit Risk exposures

2019

(KD'000)

SN	Description of Credit Risk Exposures	Manufac- turing & Trade	Banks & Financial Institu- tions	Construc- tion & Real Estate	Govern- ment	Others	Total
1	Cash item	-	-	-	-	6,866	6,866
2	Claims on sovereigns	-	-	-	183,014	43,675	226,689
3	Claims on international organizations	-	-	-	-	-	-
4	Claims on public sector entities	27,659	-	-	12,908	61,277	101,844
5	Claims on multilateral development banks	-	78,507	-	-	-	78,507
6	Claims on banks	-	358,792	-	-	-	358,792
7	Claims on corporates	348,626	165,945	952,783	-	244,884	1,712,238
8	Regulatory retail exposure	-	-	-	-	398,879	398,879
9	Qualifying residential housing financing facilities	-	-	-	-	-	-
10	Past due exposures	1,000	-	10,022	-	832	11,854
11	Goods and commodities position	745	-	-	-	-	745
12	Real estate investments	-	-	111,805	-	-	111,805
13	Investment and financing with customers	-	-	41,418	-	68,044	109,462
14	Sukuk and taskeek exposures	-	-	-	-	-	-
15	Claims on central counterparties.	-	-	-	-	-	-
16	Other exposures	-	-	-	-	151,171	151,171
Total		378,030	603,244	1,116,028	195,922	863,810	3,267,019

2018

(KD'000)

SN	Description of Credit Risk Exposures	Manufac- turing & Trade	Banks & Financial Institu- tions	Construc- tion & Real Estate	Govern- ment	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

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, 2019, the value of the irregular financing facilities (impaired), including the Bank's accounts receivable, amounted to KD 31,704 thousand after excluding the deferred revenues and due profits (31 December 2018: KD 26,557 thousand) and KD 21,302 thousand (31 December 2018: KD 24,593 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 2019, the Bank's provisions are KD 49,240 thousand including a general provision of KD 29,374 thousand (31 December 2018: KD 34,642 thousand including a general provision of KD 21,769 thousand).

Irregular and past due exposures as per standard portfolios:

2019

(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	28,916	18,514	17,820	11,096	96,456
3	Regulatory retail exposures	2,788	2,788	2,046	742	13,086
4	Real estate investments	-	-	-	-	-
5	Investment and financing with customers	-	-	-	-	-
Total		31,704	21,302	19,866	11,838	109,542

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

Irregular and past due exposures as per geographical location:

2019
(KD'000)

SN	Description of geographical location	Impaired	Specific Provision	Net Facilities	Past Due
1	MENA	31,704	19,866	11,838	109,542
2	Europe	-	-	-	-
3	Asia	-	-	-	-
Total		31,704	19,866	11,838	109,542

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

Irregular and past due exposures by industrial sector:

2019
(KD'000)

SN	Description of Industrial Sector	Impaired	Specific Provision	Net Facilities	Past Due
1	Manufacturing & Trade	5,964	4,964	1,000	5,957
2	Banks and financial institutions	-	-	-	-
3	Constructions and real estates	20,602	10,794	10,022	73,071
4	Others	5,138	4,108	816	30,514
Total		31,704	19,866	11,838	109,542

2018
(KD'000)

SN	Description of Industrial Sector	Impaired	Specific Provision	Net Facilities	Past Due
1	Manufacturing & 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

Aging of Irregular and past due exposures:**2019****(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	-	3,737	754	27,213	31,704
2	Past Due	109,542	-	-	-	109,542
Total		109,542	3,737	754	27,213	141,246

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

General Provisions Balance:

SN	Distribution of General Provisions to credit risk exposures	2019 (KD'000)	2018 (KD'000)
1	Claims on sovereigns	-	-
2	Claims on public sector institutions	889	359
3	Claims on banks	624	458
4	Claims on corporates	23,967	17,426
5	Regulatory retail exposures	2,799	3,252
6	Real estate investments	-	-
7	Investment and financing with customers	1,095	274
Total		29,374	21,769

SN	Distribution of General Provisions to geographical location	2019 (KD'000)	2018 (KD'000)
1	MENA	28,359	20,428
2	Europe	383	958
3	Asia	331	179
4	Rest of the World	301	204
Total		29,374	21,769

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

2019
(KD'000)

SN	Description of Credit Risk Exposure	Total Credit Exposure	Eligible Collaterals	Banking Guarantees
1	Cash item	6,866	-	-
2	Claims on sovereigns	226,689	-	-
3	Claims on international organizations	-	-	-
4	Claims on public sector entities	101,844	-	-
5	Claims on multilateral development banks	78,507	-	-
6	Claims on banks	358,791	-	-
7	Claims on corporates	1,712,238	242,924	-
8	Regulatory retail exposure	399,025	8,956	-
9	Qualifying residential housing financing facilities	-	-	-
10	Past due exposures	11,854	5,177	-
11	Goods and commodities positions	745	-	-
12	Real estate investments	111,805	-	-
13	Investment and financing with customers	109,462	13,460	-
14	Sukuk and taskeek exposures	-	-	-
15	Claims on central counterparties.	-	-	-
16	Other exposures	149,193	-	-
Total		3,267,019	270,517	-

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	-

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 2019 is 90% (31 December 2018: 96%) calculated as follows:

SN		2019	2018
1	Current assets (KD '000)	2,247,608	1,608,859
2	Current liabilities (KD '000)	2,500,612	1,680,032
	Current ratio	90%	96%

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

2019 (KD'000)

SN	Categories of funding	Up to 3 months	3 to 12 months	Over 1 year	Total
1	Current account	126,751	-	-	126,751
2	Unrestricted investment account	1,293,547	1,042,408	187,889	2,523,844
3	Restricted investment account	-	-	-	-
4	Other Deposits	8,519	-	-	8,519
Total		1,428,817	1,042,408	187,889	2,659,114

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



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 2019 was KD 234 million of which Central Bank reserves constituted about 46%. Average cash outflows over a 30-day horizon amounted to KD 433 million while average inflows from assets were KD 290 million.

Bank's LCR of 163% (based on average of last three months' position) was above the minimum 100% prescribed by CBK for 2019. 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 2019

Description	"value in KD'000"	
	Value before applying inflows rates (average)*	Value after applying inflows rates (average)*
High-Quality Liquid Assets (HQLA)		
1 Total HQLA (before adjustments)	-	233,608
Cash Outflows		
2 Retail deposits and small business	383,294	69,699
3 Stable deposits	-	-
4 Less stable deposits	383,294	69,699
5 Unsecured wholesale funding excluding the deposits of small business customers:		
6 Operational deposits	-	-
7 Non-operational deposits (other unsecured commitments)	643,857	333,990
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	579,768	28,988
14 Other contractual cash outflows obligations	-	-
15 Total Cash Outflows	-	432,678
Cash Inflows		
16 Secured lending transactions	-	-
17 Inflows from fully performing exposures (as per the counterparties)	294,521	289,574
18 Other cash Inflows	-	-
19 Total Cash Inflows	294,521	289,574
Liquidity Coverage Ratio (LCR)		
20 Total HQLA (after adjustments)		233,608
21 Net Cash Outflows		143,103
22 LCR		163%

*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.

As of 31 December 2019 the Bank’s NSFR was at 108% compared to the minimum requirement of 100%. The total ASF after assigning weights (ASF Factors) was KD 1,869 million while the RSF after applying weights was KD 1,738 million.

NSFR common disclosure template as at 31 December 2019

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	
Available Stable Funding (ASF)						
1	Capital					
2	Regulatory Capital	314,458	-	-	-	314,458
3	Other Capital Instruments	-	-	-	-	-
4	Retail deposits and deposits and investment accounts from small business customers:					
5	Stable deposits	-	-	-	-	-
6	Less stable deposits	-	340,328	38,740	17,045	358,207
7	Wholesale funding:					
8	Operational deposits and investment accounts	-	-	-	-	-
9	Other wholesale funding	-	1,761,606	330,549	323,025	1,196,466
10	Other liabilities:					
11	NSFR Shariah-compliant hedging contract liabilities	-	-	-	-	-
12	All other liabilities not included in the above categories	38,031	79,515	-	-	-
13	Total ASF	-	-	-	-	1,869,130
Required Stable Funding (RSF)						
14	Total NSFR Shariah-compliant high-quality liquid assets (HQLA)	259,387	-	-	-	28,692
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	-	-	-	-	-

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	
18	Performing financing to financial institutions secured by non-Level 1 HQLA and unsecured performing financing to financial institutions	87,739	315,699	5,959	7,643	57,978
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:	15,226	1,460,270	217,394	408,862	1,247,695
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:	-	-	-	-	-
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	-	-	-	99,148	84,276
24	Other assets:					
25	Physical traded commodities, including gold	-	-	-	-	-
26	Assets posted as initial margin for Shari'a-compliant hedging contracts and contributions to default funds of CCPs	-	-	-	-	-
27	NSFR Shari'a-compliant hedging contract assets	-	-	-	-	-
28	NSFR Shari'a-compliant hedging contract liabilities before deduction of variation margin posted	-	-	-	-	-
29	All other assets not included in the above categories	266,165	90,527	-	15,923	287,931
30	Off Balance Sheet Items	467,792	75,822	46,015	-	31,752
31	Total RSF	-	-	-	-	1,738,323
32	NSFR (%)	-	-	-	-	108%

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).

2019

(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	676	999	1,674	912	66	4,328
Liabilities	(356)	(772)	(1,435)	(1,036)	(307)	(3,906)
Net Impact	321	226	239	(124)	(241)	421

2019

(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	(676)	(999)	(1,674)	(912)	(66)	(4,328)
Liabilities	356	772	1,435	1,036	307	3,906
Net Impact	(321)	(226)	(239)	124	241	(421)

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)

5.5 Equity Risk in the Banking Book

As of 31 December 2019, the Bank's investments in equity positions other than sukuk amounted to KD 61,400 thousand (31 December 2018: KD 46,992thousand) as detailed below:

Investments types	2019 (KD'000)	2018 (KD'000)
Quoted equity security	7,536	7,159
Unquoted equity security	5,505	5,492
Unquoted Portfolios and Funds	29,904	21,333
Other unquoted investments	18,455	13,008
Total	61,400	46,992

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 23 thousand (2018: Nil) in the income statement and unrealized loss from change in fair value of the quoted securities amounting to KD 13 thousand (31 December 2018: KD 849 thousand) in the other comprehensive income.

The minimum required capital for equity investment as at 31 December 2019 was KD 4,939 thousand (31 December 2018: KD 3,837 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:

2019

SN	Account Category	Q1	Q2	Q3	Q4
1	Saving accounts	1.27%	1.29%	1.29%	1.30%

2018

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

SEVENTH: SHARI'A REGULATIONS

Shari'a regulations are monitored and implemented by the Internal Shari'a Audit Department based on the decisions issued and approved by the Shari'a Supervisory Board of Warba Bank. The Internal Shari'a Audit Department supervises the implementation of such regulations on daily basis and answers any Shari'a related inquiries. Part of the activities of the Internal Shari'a Audit Department includes amongst other the review of policies, procedures and documentation including contracts, forms and agreements.

The Internal Shari'a Audit Department, conducted audit on the bank various operations based on an annual audit plan covering all the banks' departments upon which a report covering the findings is reported. The Shari'a Supervisory Board accordingly represents its report to the general assembly in its annual general assembly meeting.

Shari'a Board remuneration for the year ended 31 December 2019 amounted to KD 54 thousand (31 December 2018: KD 27 thousand).

EIGHTH: BANK'S REMUNERATION POLICIES

Board Nominations & Remunerations Committee

The Committee is chaired by Mr. Hamad Musaed Al Sayer, and includes as members Mr. Abdulaziz A. Al Jaber, Mr. Bader Khalid Al Shalfan and Mr. Musaab Omar Sulaiman Al Fulaij. The Committee helps the Board of Directors to decide on candidates' eligibility to membership of the Board of Directors, the candidate for the position of Chief Executive Officer, his deputies and assistants. The Committee also ensures effectiveness, sound implementation and commitment of the Nominations Policy and its consistency with the Bank's objectives.

The Committee has hired an external Consultant to prepare a long-term incentive scheme for the senior management members.

The functions of the Board Nomination and Remuneration Committee with respect to the Compensation Policy (remunerations) include but are not limited to the following:

- Conduct periodic review of the policy or as recommended by the Board of Directors, give recommendations to the Board of Directors for amending / updating the policy.
- Conduct periodic assessment of the adequacy and effectiveness of the Remuneration Policy to ensure accomplishment of the declared objectives.
- Evaluate the practices under which remunerations are awarded against future revenues under uncertain timing and potentials.
- Make recommendations to the Board of Directors on the level and components of remunerations for the Chief Executive Officer, his assistants and similar executives level at the Bank to obtain Board approval;
- Identify a system for awarding remunerations in line with the principles of sound practices in respect of awarding remunerations;
- Work closely with the Board Risk Committee at the Bank and / or the Chief Risk Officer when assessing the proposed incentives in the Remuneration Scheme.
- Review the relevant policy and procedures periodically or at least when needed to ensure meeting the established goals in light of the information reviewed by the Committee about the progress of the Remuneration Scheme.

The number of the meetings held by the Board Nominations & Remunerations Committee during the year was 8 meetings, and the total remunerations paid to its members is KD 26 thousand for the year ending on 31 December 2019 (31 December 2018: KD 16 Thousand).

Compensation according to various staff categories at Warba Bank:

1. Senior Management, this category includes the CEO, deputies, assistants and key executive managers whose appointment is subject to the approval of regulatory and supervisory bodies. Fixed wages for this category include basic salaries, benefits and allowances as well as end-of-service benefits.
2. Those responsible for Financial Control and Risk employees, the remunerations paid to this category include basic salaries, benefits, allowances and end of service benefits. This category includes Financial Control, Risk Management, Compliance Department, Internal Audit and AML Unit.
3. Material Risk Takers: Total compensations paid to this category include basic salaries, benefits and allowances as well as end-of-service benefits, and this category includes 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 taken.

Warba Bank sets a Compensation Policy that provides fair, equitable and competitive compensation for its employees; encouraging and rewarding high performance; attracting individuals of the right caliber, qualifications and experience for the positions in the Bank; and providing flexibility to adapt to business market changes and requirements in a structured and standardized manner. Warba has developed systematic procedures for disbursement of financial rewards, taking into account the application of "the Claw Back" if necessary.

The Board of Directors provides effective oversight on remuneration systems and schemes and reviews salaries structures to ensure sound implementation in close connection with the BNRC whose duties include setting the Remuneration Policy and submitting it for Board approval, conducting periodic review of the policy and providing recommendations thereon so as to ensure proper remuneration payment.

The Remuneration Policy is in line with prudent risk taking. The bonuses must be linked to the bank's medium and long-term performance, taking into account changing the components of the bonuses granted to employees to suit the long-term risks (risk time frame).

Job Assessment:

1. Job evaluation is used to determine the fair financial value of individual functions within the Bank.
2. The elements to be taken into consideration in the job evaluation process, using the IPE methodology , are based on the following factors:
 - Impact on the organization
 - Communication (internal and external)
 - Knowledge
 - Innovation
 - Risk Environments
3. For each of these elements, the work is evaluated on a separate scale. The results of the evaluation of the Bank's functions determine the function within the relevant grade structure in line with best practices.
4. The Total Rewards Unit is responsible for job evaluation based on accurate job descriptions

No employees were awarded remunerations on signing employment contracts (sign-on awards) during 2019. (2018: No employees were awarded remunerations on signing employment contracts (sign-on awards))

The table below shows the value of remuneration paid to Senior Management:

2019

SN	Total value of remuneration awards for the current fiscal year	Unrestricted (in KD)	Deferred (in KD)
Fixed remuneration			
1	Cash-based	1,613,449	-
2	Shares and share-linked instruments	-	-
3	Other	59,338	-
Variable remuneration			
4	Cash-based	616,744	153,761
5	Shares and share-linked instruments	-	-
6	Other	8,462	-
Total		2,297,993	153,761

2018

SN	Total value of remuneration awards for the current fiscal year	Unrestricted (in KD)	Deferred (in KD)
Fixed remuneration			
1	Cash-based	1,584,879	-
2	Shares and share-linked instruments	-	-
3	Other	51,120	-
Variable remuneration			
4	Cash-based	529,258	174,598
5	Shares and share-linked instruments	-	-
6	Other	-	-
Total		2,165,257	174,598

The table below shows the value of remuneration paid to material risk takers other than the Senior Management:

2019

SN	Total value of remuneration awards for the current fiscal year	Unrestricted (in KD)	Deferred (in KD)
Fixed remuneration			
1	Cash-based	1,410,658	-
2	Shares and share-linked instruments	-	-
3	Other	32,159	-
Variable remuneration			
4	Cash-based	548,667	148,123
5	Shares and share-linked instruments	8,462	-
6	Other	10,074	-
Total		2,010,020	148,123

2018

SN	Total value of remuneration awards for the current fiscal year	Unrestricted (in KD)	Deferred (in KD)
Fixed remuneration			
1	Cash-based	1,505,778	-
2	Shares and share-linked instruments	-	-
3	Other	35,354	-
Variable remuneration			
4	Cash-based	332,302	281,709
5	Shares and share-linked instruments	-	-
6	Other	-	-
Total		1,873,434	281,709

The table below shows the value of remuneration paid to the respective employee categories:

2019

SN	Employee Categories	Number of Employees in the category	End of service paid during the year (in KD)	“Unrestricted” salaries and remunerations paid during the year (in KD)
1	Senior Management	13	-	2,297,993
2	Material Risk Takers	18	29,344	2,010,020
3	Financial & Control Functions	12	33,913	1,098,704

2018

SN	Employee Categories	Number of Employees in the category	End of service paid during the year (in KD)	“Unrestricted” salaries and remunerations paid during the year (in KD)
1	Senior Management	15	30,785	2,165,257
2	Material Risk Takers	16	4,839	1,873,434
3	Financial & Control Functions	12	4,839	1,420,419

Financial Statements and Independent Auditor's Report



10 prestigious awards from renowned institutes including the 'Fastest Growing Bank' for the 5th consecutive year.

100	›	INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF WARBA BANK K.S.C.P.
104	›	CONSOLIDATED STATEMENT OF FINANCIAL POSITION
105	›	CONSOLIDATED STATEMENT OF PROFIT OR LOSS
106	›	CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
107	›	CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
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Ernst and Young
Al Aiban, Al Osaimi and Partners
P.O. Box 74
18-21st Floor, Baitak Tower
Ahmed Al Jaber Street
Safat Square 13001, Kuwait

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



KPMG Safi Al-Mutawa & Partners
Al Hamra Tower, 25th Floor
Abdulaziz Al Saqr Street
P.O. Box 24, Safat 13001
State of Kuwait

Telephone : +965 2228 7000
Fax : +965 2228 7444

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 2019, 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 2019, 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' Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current 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 from 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 the CBK guidelines, is a complex accounting policy, which requires considerable judgement in its implementation. ECL is dependent on management's judgement in assessing significant increase in credit risk and classification of credit facilities into various stages, determining when a default has occurred, development of models for assessing the probability of default of customers and estimating cash flows from recovery procedures or realization of collateral. 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 the 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 model 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 the 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 2019 Annual Report

Management is responsible for the other information. Other information consists of the information included in the Group's 2019 Annual Report, other than the consolidated financial statements and our auditors' report thereon. We obtained the report of the Bank's Board of Directors, prior to the date of our Auditors' report, and we expect to obtain the remaining sections of the Group's 2019 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 have 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 2019 that might have had a material effect on the business of the Bank or on its financial position.

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



WALEED A. AL OSAIMI

LICENCE NO. 68 A

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AL-AIBAN, AL-OSAIMI & PARTNERS



SAFI A. AL-MUTAWA

License No. 138 "A"

of KPMG Safi Al-Mutawa & Partners

Member firm of KPMG International

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

	Notes	2019 KD'000	2018 KD'000
ASSETS			
Cash and bank balances	3	102,544	20,015
Placements with banks and the CBK		225,703	256,486
Financing receivables	4	2,261,974	1,607,945
Financial assets at fair value through profit or loss	5	55,895	41,500
Financial assets at fair value through other comprehensive income	6	323,062	148,585
Investment in joint ventures	7	91,007	52,498
Investment properties	8	20,798	22,867
Other assets		39,897	26,218
Property and equipment		22,803	18,358
TOTAL ASSETS		3,143,683	2,194,472
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks and other financial institutions	9	953,303	835,063
Depositors' accounts	10	1,705,811	1,053,178
Sukuk issued	11	152,179	-
Other liabilities		38,030	35,303
TOTAL LIABILITIES		2,849,323	1,923,544
EQUITY			
Share capital	12	150,000	150,000
Share premium		40,000	40,000
Statutory reserve	12	3,098	1,353
Fair value reserve		7,211	(4,646)
Foreign currency translation reserve		127	79
Retained earnings		10,061	7,779
		210,497	194,565
Proposed distributions	12	7,500	-
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE BANK		217,997	194,565
Perpetual Tier 1 Sukuk	13	76,363	76,363
TOTAL EQUITY		294,360	270,928
TOTAL LIABILITIES AND EQUITY		3,143,683	2,194,472



Abdulwahab A. Al Houti
Chairman



Shaheen H. Al Ghanem
Chief Executive Officer

The accompanying notes 1 to 24 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 KD'000	2018 KD'000
Placements and finance income		109,570	79,222
Finance costs and distribution to depositors		(64,081)	(39,174)
Net finance income		45,489	40,048
Net investment income	14	7,884	4,806
Net fee and commission income	15	5,070	3,793
Other income		227	216
Foreign exchange gain		1,023	689
Operating income		59,693	49,552
Staff costs		(14,807)	(12,309)
General and administrative expenses		(4,426)	(5,509)
Depreciation expense		(3,174)	(1,141)
Operating expenses		(22,407)	(18,959)
Net operating profit before provision for impairment and credit losses		37,286	30,593
Provision for impairment and credit losses	16	(19,839)	(17,064)
Profit before tax		17,447	13,529
Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)		(157)	(122)
National Labour Support Tax (NLST)		(452)	(410)
Zakat		(175)	(159)
Board of directors' remuneration		(125)	(100)
NET PROFIT FOR THE YEAR		16,538	12,738
BASIC AND DILUTED EARNINGS PER SHARE (EPS)	17	7.73 fils	7.06 fils

The accompanying notes 1 to 24 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 KD'000	2018 KD'000
Net profit for the year		16,538	12,738
Other comprehensive income (loss)			
Items that are or may be reclassified to profit or loss in subsequent periods:			
<i>Debt instruments at fair value through other comprehensive income:</i>			
Net change in fair value		11,434	(7,612)
Changes in allowance for expected credit losses	16	682	501
Reclassification adjustment on sale	14	(215)	651
Net gains/(losses) on debt instruments at fair value through other comprehensive income		11,901	(6,460)
<i>Cash flow hedges:</i>			
Hedging net (losses) gains		(1,266)	57
Less: reclassification adjustment on discontinuation of the hedging relationship		1,209	-
Movement on cash flow hedges		(57)	57
Exchange differences on translation of foreign operations		48	(172)
Total items that are or may be reclassified to profit or loss		11,892	(6,575)
<i>Items that will not be reclassified to profit or loss in subsequent periods:</i>			
Net change in fair value of equity investments at fair value through other comprehensive income		13	849
Total items that will not be reclassified to profit or loss		13	849
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR		11,905	(5,726)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		28,443	7,012

The accompanying notes 1 to 24 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

	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 KD'000	Sub-total KD'000	Proposed distributions KD'000	Equity attributable to shareholders of the Bank KD'000	Perpetual Tier 1 Sukuk KD'000	Total equity KD'000
As at 1 January 2019 as previously reported (audited)	150,000	40,000	1,353	(4,646)	79	7,779	194,565	-	194,565	76,363	270,928
Impact of adopting IFRS 16 at 1 January 2019 (Note 2.2.1)	-	-	-	-	-	(68)	(68)	-	(68)	-	(68)
Restated opening balance under IFRS 16	150,000	40,000	1,353	(4,646)	79	7,711	194,497	-	194,497	76,363	270,860
Net profit for the year	-	-	-	-	-	16,538	16,538	-	16,538	-	16,538
Other comprehensive income	-	-	-	11,857	48	-	11,905	-	11,905	-	11,905
Total comprehensive income for the year	-	-	-	11,857	48	16,538	28,443	-	28,443	-	28,443
Transferred to the statutory reserve	-	-	1,745	-	-	(1,745)	-	-	-	-	-
Proposed distributions (Note 12)	-	-	-	-	-	-	-	-	-	-	-
Proposed bonus shares	-	-	-	-	-	(7,500)	(7,500)	7,500	-	-	-
Profit paid on Perpetual Tier 1 Sukuk (Note 13)	-	-	-	-	-	(4,943)	(4,943)	-	(4,943)	-	(4,943)
At 31 December 2019	150,000	40,000	3,098	7,211	127	10,061	210,497	7,500	217,997	76,363	294,360
As at 1 January 2018 as previously reported (audited)	100,000	-	-	(214)	251	559	100,596	-	100,596	76,363	176,959
Impact of adopting IFRS 9 at 1 January 2018	-	-	-	1,122	-	915	2,037	-	2,037	-	2,037
Restated opening balance under IFRS 9	100,000	-	-	908	251	1,474	102,633	-	102,633	76,363	178,996
Net profit for the year	-	-	-	-	-	12,738	12,738	-	12,738	-	12,738
Other comprehensive loss	-	-	-	(5,554)	(172)	-	(5,726)	-	(5,726)	-	(5,726)
Total comprehensive (loss) income for the year	-	-	-	(5,554)	(172)	12,738	7,012	-	7,012	-	7,012
Increase in share capital	50,000	40,000	-	-	-	-	90,000	-	90,000	-	90,000
Costs directly related to increase in share capital	-	-	-	-	-	(172)	(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)	-	(4,908)
At 31 December 2018	150,000	40,000	1,353	(4,646)	79	7,779	194,565	-	194,565	76,363	270,928

The accompanying notes 1 to 24 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 KD'000	2018 KD'000
OPERATING ACTIVITIES			
Net profit for the year		16,538	12,738
<i>Adjustments for:</i>			
Net investment income	14	(7,884)	(4,806)
Provision for employees' end of service benefits		779	618
Depreciation expense		3,174	1,141
Provision for impairment and credit losses		19,839	17,064
		32,446	26,755
<i>Changes in operating assets and liabilities:</i>			
Placements with banks and the CBK		1,973	31,752
Financing receivables		(672,795)	(356,425)
Other assets		(13,913)	(3,082)
Due to banks and other financial institutions		118,074	261,950
Depositors' accounts		652,633	46,564
Other liabilities		(992)	10,896
Net cash flows from operating activities		117,426	18,410
INVESTING ACTIVITIES			
Purchase of financial assets at fair value through profit of loss		(19,339)	(17,279)
Proceeds from sale and redemption of financial assets at fair value through profit of loss		2,634	290
Purchase of financial assets at fair value through other comprehensive income		(228,810)	(128,460)
Proceeds from sale of financial assets at fair value through other comprehensive income		65,877	118,453
Additions to investment in joint ventures	7	(35,550)	(19,853)
Proceeds from sale of investment property		2,259	-
Purchase of property and equipment		(3,298)	(13,965)
Dividends received from financial assets		2,151	1,927
Other investment income received		937	191
Amounts paid on discontinuation of the hedging relationship		(1,209)	-
Distributions received from joint ventures		4,159	2,331
Rental income received		1,425	1,432
Net cash flows used in investing activities		(208,764)	(54,933)
FINANCING ACTIVITIES			
Proceeds from increase in share capital		-	90,000
Transactions costs directly related to increase in share capital		-	(172)
Profit paid to holders of Perpetual Tier 1 Sukuk	13	(4,943)	(4,908)
Proceeds from issue of Sukuk		152,179	-
Payment of lease liabilities		(2,187)	-
Net cash flows from financing activities		145,049	84,920
NET INCREASE IN CASH AND CASH EQUIVALENTS		53,711	48,397
Cash and cash equivalents at 1 January		229,926	181,529
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	3	283,637	229,926

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2019

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 Shar' a, as approved by the Bank's Shar' a Supervisory Board.

The annual general assembly meeting ("AGM") of the shareholders of the Bank held on 20 March 2019 approved the consolidated financial statements for the year ended 31 December 2018. No cash dividends or bonus shares were declared for the year ended 31 December 2018.

The consolidated financial statements of the Bank and its wholly owned special purpose vehicles (collectively, the "Group") for the year ended 31 December 2019 were authorised for issue in accordance with a resolution of the Board of Directors on 16 January 2020. The shareholders of the Bank have the power to amend these consolidated financial statements in the AGM.

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 on a historical cost basis except for financial assets designated at fair value through profit or loss (FVTPL), debt and equity instruments at fair value through other comprehensive income (FVOCI) and investment properties all of which have been measured at fair value. The carrying values of recognised assets and liabilities that are designated as hedged items in cash flows hedges that would otherwise be carried at amortised cost are adjusted to recognise changes in the fair values attributable to the risks that are being hedged in effective hedge relationships.

The Bank presents its statement of financial position in order of liquidity based on the Bank's intention and perceived ability to recover/settle the majority of assets/liabilities of the corresponding financial statement line item. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 20.

The consolidated financial statements are presented in Kuwaiti Dinars (KD) and all values are rounded to the nearest thousand (KD '000), except when otherwise indicated.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of these consolidated financial statements are consistent with those used in the previous financial year, except for the adoption of new standards effective as of 1 January 2019. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group applies, for the first time, IFRS 16, the nature and effect of these changes are disclosed below. Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the consolidated financial statements of the Group.

2.2.1 New standards, interpretations, and amendments adopted by the Group

IFRS 16 'Leases'

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

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

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

The effect of adoption of IFRS 16 as at 1 January 2019 (increase/ (decrease)) is as follows:

	KD 000's
Assets	
Right-of-use assets (included under property and equipment)	4,321
Prepayments (included under other assets)	(269)
Total assets	4,052
Liabilities	
Lease liabilities (included under other liabilities)	4,120
Equity	
Retained earnings	(68)

a) Nature of the effect of adoption of IFRS 16

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

Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which has been applied by the Group.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)
 2.2.1 New standards, interpretations, and amendments adopted by the Group (continued)

Leases previously accounted for as operating leases

The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Group also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Relied on its assessment of whether leases are onerous immediately before the date of initial application;
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months at the date of initial application;
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application;
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

b) Summary of new accounting policies

Set out below are the new accounting policies of the Group upon adoption of IFRS 16, which have been applied from the date of initial application:

Group as a lessee

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

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

Right-of-use assets are subject to impairment.

Lease liabilities

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)
2.2.1 New standards, interpretations, and amendments adopted by the Group (continued)

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

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of property and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below KD 1,500). Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Significant judgement in determining the lease term of contracts with renewal options

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

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

c) Amounts recognised in the consolidated statement of financial position and profit or loss

Set out below, are the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the period:

	Right-of-use assets			Lease liabilities KD 000's
	Property KD 000's	Motor vehicles KD 000's	Total KD 000's	
As at 1 January 2019	4,276	45	4,321	4,120
Additions	2,286	83	2,369	2,341
Depreciation expense	(2,100)	(58)	(2,158)	-
Finance cost	-	-	-	110
Payments	-	-	-	(2,187)
As at 31 December 2019	4,462	70	4,532	4,384

The Group recognised rent expense from short-term leases of KD 13 thousand and leases of low-value assets of KD 28 thousand for the year ended 31 December 2019.

Other amendments to IFRSs which are effective for annual accounting period starting from 1 January 2019 did not have any material impact on the accounting policies, financial position or performance of the Group.



2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

2.2.2 Accounting policies for new transactions

Sukuk issued

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

Disclosures for the Bank's issued Sukuk are set out in Note 11.

2.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

Amendments to IFRS 3: Definition of a Business

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

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

Amendments to IAS 1 and IAS 8: Definition of Material

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.4.1 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) as at 31 December 2019. 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)
2.4.1 Basis of consolidation (continued)

- Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and 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 of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the wholly owned special purpose vehicle.

Profit or loss and each component of OCI are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in 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 (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

The consolidated financial statements include the financial statements of the Bank and its wholly owned special purpose vehicles. The wholly owned special purpose vehicles of the Bank are as follows::

Name of subsidiary	Principal activities	Country of incorporation	Equity interest %	
			31 December 2019	31 December 2018
Abyat Real Estate Company L.L.C.	Real estate	Sultanate of Oman	100	100
Themar Al Omania Company L.L.C.	Real estate	Sultanate of Oman	100	100
Al Kout Holdings Limited	Real estate	Jersey	100	100
Warba Tier 1 Sukuk Limited	Financial securities	Cayman Islands	100	100

2.4.2 Financial instruments – initial recognition

2.4.2.1 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.



2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)
2.4.2 Financial instruments – initial recognition (continued)

2.4.2.2 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.

2.4.2.3 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.

2.4.2.4 Determining the classification and measurement of financial assets and liabilities

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

Cash and cash equivalents

Cash and cash equivalents as referred to in the cash flow statement comprises cash on hand, non-restricted current accounts with central banks and placements with banks on demand or with an original maturity of three months or less.

Placements with banks, Financing receivables, Financial investments at amortised cost

The Bank only measures placements with banks, financing receivables and other financial investments at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit (SPPP) on the principal amount outstanding

The details of these conditions are outlined below.

Business model assessment

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective:

- 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 Bank's assessment. The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Bank's original expectations, the Bank 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)
2.4.2 Financial instruments – initial recognition (continued)

The SPPP test

As a second step of its classification process the Bank assesses the contractual terms of the 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 and 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 Bank 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.

Debt instruments at FVOCI

The Bank 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
- The contractual terms of the financial asset meet the SPPP test

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Profit returns and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortised cost. The ECL calculation for Debt instruments at FVOCI is explained below. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon derecognition of the assets.

Equity instruments at FVOCI

Upon initial recognition, the Bank occasionally elects to classify irrevocably some of its equity investments 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.

Gains and losses on these equity instruments are never recycled to profit or loss. Dividends are recognised in profit or loss when the right of the payment has been established, except when the Bank benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)
2.4.2 Financial instruments – initial recognition (continued)

Financial assets and financial liabilities at fair value through profit or loss (FVTPL)

Financial assets and financial liabilities in this category are those that are not held for trading and have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9. Management only designates an instrument at FVTPL upon initial recognition when one of the following criteria are met. Such designation is determined on an instrument-by-instrument basis:

- The designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis; or
- The liabilities (and assets until 1 January 2018 under IAS 39) are part of a group of financial liabilities (or financial assets, or both under IAS 39), which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- The liabilities (and assets until 1 January 2018 under IAS 39) contain one or more embedded derivatives, unless they do not significantly modify the cash flows that would otherwise be required by the contract, or it is clear with little or no analysis when a similar instrument is first considered that separation of the embedded derivative(s) is prohibited

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, sukuk issued and other liabilities are classified as "financial liabilities other than at fair value through profit or loss".

Financial guarantees, letters of credit and undrawn loan commitments

The Bank issues financial guarantees, letters of credit and loan commitments.

Financial guarantees are initially recognised in the financial statements at fair value, being the premium received. Subsequent to initial recognition, the Bank'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.

The premium received is recognised in the statement of profit or loss in Net fees and commission income on a straight line basis over the life of the guarantee.

2.4.3. Financial instruments - Derecognition of financial assets and 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)
2.4.3. Financial instruments - Derecognition of financial assets and liabilities (continued)

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.

2.4.4 Impairment of financial assets

2.4.4.1 Expected credit loss of financial assets

The Expected credit loss (ECL) model applies to financial assets measured at amortised cost, contract assets and debt instruments at FVOCI. 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.

The Group measures 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.

The Group considers balances with the CBK and Sukuk issued by the CBK and the Government of Kuwait have low credit risk based on external credit ratings of the counterparties and hence ECL is considered negligible. Equity investments are not subject to ECL.

The Group considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties and CBK guarantee of deposits placed with local banks.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)
2.4.4 Impairment of financial assets (continued)

The Group provides for credit losses on financing facilities according to the CBK guidelines and records the provision for 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.

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.

*2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**2.4.4 Impairment of financial assets (continued)**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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)
2.4.4 Impairment of financial assets (continued)

2.4.4.2 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.

2.4.5 Write-offs

Financial assets are written off either partially or in their entirety only when the Bank has no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. 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 credit loss expense.

2.4.6 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 realise the assets and liabilities simultaneously.

2.4.7 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)
2.4.7 Derivative financial instruments and hedge accounting (continued)

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.

In accordance with its wider risk management, as set out in Note 24, it is the Group's strategy to apply cash flow hedge accounting to keep its profit rate and foreign currency revaluation fluctuations within its established limits. Applying cash flow hedge accounting enables the Group to reduce the cash flow fluctuations arising from foreign exchange and profit rate risk on an instrument or group of instruments, or to hedge profit rate mismatches on a portfolio level from its floating liabilities including future issuances.

From an accounting point of view, a cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability (such as all or some future profit payments on variable rate debt) or a highly probable forecast transaction and could affect profit or loss.

For designated and qualifying cash flow hedges, the effective portion of the cumulative gain or loss on the hedging instrument is initially recognised directly in OCI within equity. The ineffective portion of the gain or loss on the hedging instrument is recognised immediately in profit or loss.

When the hedged cash flow affects the statement of profit or loss, the effective portion of the gain or loss on the hedging instrument is recorded in the corresponding income or expense line of the statement of profit or loss.

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 OCI at that time remains in OCI and is recognised when the hedged forecast transaction is ultimately recognised in the statement of profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in OCI is immediately transferred to the statement of profit or loss.

To test the hedge effectiveness, the Group compares the changes in the fair value of the hedging instruments against the changes in fair value of the hedged items attributable to the hedged risk (e.g., changes in the forward exchange rates or profit rate risk).

2.4.8 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 the unanimous consent of the parties sharing control.

The considerations made in determining joint control are similar to those necessary to determine control over subsidiaries. The Group's investment 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 not tested for impairment separately.

The statement of profit or loss reflects the Group's share of the results of operations of the joint venture. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the joint venture, the Group recognises its share of any changes, when applicable, in the 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 associate or joint venture.



2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)
2.4.8 Investments in joint venture (continued)

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

Upon loss of 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 joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

2.4.9 Investment properties

Investment properties are measured initially at cost, including transaction costs. 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 profit or loss in the period in which they arise, including the corresponding tax effect. Fair values are determined based on an annual valuation performed by an accredited external independent valuer using appropriate valuation techniques.

Investment properties are derecognised either when they have been disposed of (i.e., at the date the recipient obtains control) or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in profit or loss in the period of derecognition. In determining the amount of consideration from the derecognition of investment property the Group considers the effects of variable consideration, existence of a significant financing component, non-cash consideration, and consideration payable to the buyer (if any).

Transfers are made to (or from) investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

2.4.10 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 recognised or 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 recognised in profit or loss as 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.

*2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)***2.4.11. 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 indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit (CGU) fair value less costs of disposal and its value in use. The recoverable amount 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. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset 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 pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on most recent budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor 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 statement of profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

Goodwill is tested for impairment annually as at the reporting date and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

2.4.12 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.

2.4.13 Revenue recognition

Revenue is recognised either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised goods or services to its customers.

Rental income

The Group is the lessor in operating leases. Rental income arising from operating leases on investment property is accounted for on a straight-line basis over the lease terms.



2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)
2.4.13 Revenue recognition (continued)

Fee and commission income

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income, and other management and advisory fees.

The Group earns fee and commission income from a diverse range of financial services it provides to its customers. Fee and commission income is recognised at an amount that reflects the consideration to which the Group expects to be entitled in exchange for providing the services.

The performance obligations, as well as the timing of their satisfaction, are identified, and determined, at the inception of the contract. The Group's revenue contracts do not typically include multiple performance obligations.

When the Group provides a service to its customers, consideration is invoiced and generally due immediately upon satisfaction of a service provided at a point in time or at the end of the contract period for a service provided over time.

The Group has generally concluded that it is the principal in its revenue arrangements because it typically controls the services before transferring them to the customer.

Finance and similar income

Finance and similar income includes income from Wakala, Murabaha and Ijara investments and is calculated using both the EIR method and other methods.

Dividend income

Dividend income is recognised when the right to receive payment is established.

Net investment income

Net investment income includes all gains and losses from changes in fair value and dividends. This includes any ineffectiveness recorded on hedging transactions.

2.4.14 Foreign currency translation

Functional and presentational currency

The consolidated financial statements are presented in KD. For each entity in the group, the Bank determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group uses the direct method of consolidation.

Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency at the spot rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated into the functional currency at the spot rate of exchange at the reporting date. All foreign exchange differences arising on non-trading activities are taken to foreign exchange gain/(loss) in the consolidated statement of profit or loss.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the spot exchange rates as at the date of recognition.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)
2.4.14 Foreign currency translation (continued)

Group companies

On consolidation, the assets and liabilities in foreign operations are translated into KD at the spot rate of exchange prevailing at the reporting date and their income statements are translated at spot exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in OCI.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations, and are translated at the closing rate of exchange.

2.4.15 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 in accordance with the Ministry of Finance resolution No. 58/2007 effective from 10 December 2007.

2.4.16 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.

2.4.17 Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. When the effect of the time value of money is material, the Bank determines the level of provision by discounting the expected cash flows at a pre-tax rate reflecting the current rates specific to the liability. The expense relating to any provision is presented in the statement of profit or loss net of any reimbursement in provision for impairment and credit losses.

2.4.18 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.



2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4.19 Fiduciary assets

The Group provides fiduciary services that result in the holding or investing of assets on behalf of its clients. Assets held in a fiduciary capacity, unless recognition criteria are met, are not reported in the financial statements, as they are not assets of the Group.

2.4.20 Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Group's shareholders. Interim dividends are deducted from equity when they are declared and are no longer at the discretion of the Group.

Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

2.5 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. In the process of applying the Group's accounting policies, management has made the following judgements and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Existing circumstances and assumptions about future developments may change due to circumstances beyond the Group's control and are reflected in the assumptions if and when they occur. Items with the most significant effect on the amounts recognised in the consolidated financial statements with substantial management judgement and/or estimates are collated below with respect to judgements/estimates involved.

2.5.1 Judgments

Consolidation of wholly owned special purpose vehicles

A wholly owned special purpose vehicle is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. The Group consolidates the structured entities that it controls, as explained in Note 2.4.1. When making this judgement, the Group also considers voting and similar rights available to itself and other parties, who may limit the Group's ability to control, including rights to appoint, reassign or remove members of the structured entity's key management personnel who have the ability to direct the relevant activities.

Fair value of financial instruments

The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. When the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. Judgements and estimates include considerations of liquidity and model inputs related to items such as credit risk (both own and counterparty), funding value adjustments, correlation and volatility. For further details about determination of fair value please see Note 23.

2.5 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)
2.5.1 Judgments (continued)

Hedge accounting

The Group's hedge accounting policies include an element of judgement and estimation. Estimates of future profit rates and the general economic environment will influence the availability and timing of suitable hedged items, with an impact on the effectiveness of the hedge relationships. Details of the Group's hedge accounting policies are described in Notes 24.

Classification of financial assets

The Group determines the classification of financial assets based on the assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and profit.

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.

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

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

The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation to the leased asset).

2.5.2 Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also described in the individual notes of the related financial statement line items below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Impairment of investment in joint ventures

Investment in joint ventures are accounted for under the equity method of accounting for associates, whereby these investments are initially stated at cost, and are adjusted thereafter for the post-acquisition change in the Group's share of the net assets of the joint ventures less any impairment losses. The Group is required to assess, at each reporting date, whether there are indications of impairment. If such indications exist, the management estimates the recoverable amount of the joint venture in order to determine the extent of the impairment loss (if any). The identification of impairment indicators and determination of the recoverable amounts require management to make significant judgements, estimates and assumptions.



2.5 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)
2.5.2 Estimation uncertainty (continued)

Expected credit losses of financial instruments – as per IFRS 9 according to the CBK guidelines

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 criterion 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 – as per CBK guidelines

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 investment properties

The fair value of investment properties is determined by real estate valuation experts using recognised valuation techniques and the principles of IFRS 13 Fair Value Measurement.

Investment properties under construction are measured based on estimates prepared by independent real estate valuation experts, except where such values cannot be reliably determined. The significant methods and assumptions used by valuers in estimating the fair value of investment properties are set out in Note 8.

Fair value measurement

Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available). This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible but this is not always available. In that case, management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

2.5 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)
2.5.2 Estimation uncertainty (continued)

Leases - Estimating the incremental borrowing rate

The Group cannot readily determine the profit rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease.

The Group estimates the IBR using observable inputs (such as market profit rates) when available and is required to make certain entity-specific estimates.

3. CASH AND CASH EQUIVALENTS

For the purpose of the statement of cash flows, cash and cash equivalents comprise the following at 31 December:

	2019 KD'000	2018 KD'000
Cash	3,725	3,727
Current account with the CBK	10,615	9,293
Current accounts with commercial banks	88,204	6,995
Cash and bank balances	102,544	20,015
Placements with the CBK whose original maturity is within 3 months	27,101	60,125
Placements with banks whose original maturity is within 3 months	153,992	149,786
Cash and cash equivalents	<u>283,637</u>	<u>229,926</u>

Placements with banks represent placements with reputable financial institutions with appropriate credit-ratings assigned by international credit-rating agencies.

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.

	2019 KD'000	2018 KD'000
Murabaha receivables	2,083,870	1,495,594
Ijara receivables	304,759	222,979
Wakala receivables	18,662	-
Others	14,976	12,673
Less: deferred profit	(117,138)	(94,366)
Financing receivables before provision for impairment	2,305,129	1,636,880
Less: Provision for impairment as per CBK guidelines (2018: ECL as per IFRS 9 according to the CBK guidelines) *	(43,155)	(28,935)
	<u>2,261,974</u>	<u>1,607,945</u>

Notes to the Consolidated Financial Statements as at and for the year ended 31 December 2019

4 FINANCING RECEIVABLES (continued)

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

	2019 KD'000	2018 KD'000
Corporate	1,443,639	1,028,352
Individuals	861,490	608,528
Financing receivables before provision for impairment	2,305,129	1,636,880
Less: Provision for impairment as per CBK guidelines (2018: ECL as per IFRS 9 according to the CBK guidelines) *	(43,155)	(28,935)
	<u>2,261,974</u>	<u>1,607,945</u>

* The above comparative information for impairment provisions refers to ECL measurement basis under IFRS 9 according to CBK guidelines, whereas the current year applies provisions required by CBK instructions.

Movement in provision for impairment as per CBK instructions for the year ended 31 December 2019 is as follows:

	31 December 2019		
	Specific provision KD'000	General provision KD'000	Total KD'000
<u>Cash facilities</u>			
As at 1 January 2019 calculated under IFRS 9 according to the CBK guidelines	9,173	21,165	30,338
Reclassification*	(1,403)	-	(1,403)
Balance after reclassification	7,770	21,165	28,935
Provision charged during the year	11,416	7,419	18,835
Written off balances during the year	(4,595)	-	(4,595)
Foreign currency movement	-	(20)	(20)
At 31 December 2019	<u>14,591</u>	<u>28,564</u>	<u>43,155</u>
<u>Non-cash facilities</u>			
As at 1 January 2019 calculated under IFRS 9 according to the CBK guidelines	3,700	603	4,303
Reclassification*	1,403	-	1,403
Balance after reclassification	5,103	603	5,706
Provision charged during the year	172	206	378
Foreign currency movement	-	-	-
At 31 December 2019	<u>5,275</u>	<u>809</u>	<u>6,084</u>
<u>Total facilities</u>			
As at 1 January 2019 calculated under IFRS 9 according to the CBK guidelines	12,873	21,768	34,641
Provision charged during the year (Note 16)	11,588	7,625	19,213
Written off balances during the year	(4,595)	-	(4,595)
Foreign currency movement	-	(20)	(20)
At 31 December 2019	<u>19,866</u>	<u>29,373</u>	<u>49,239</u>

* During the current year, an amount of KD 1,403 thousand has been reclassified between cash and non-cash facilities provisions balances.

4 FINANCING RECEIVABLES (continued)

An analysis of changes in the gross carrying amount and the corresponding expected credit losses in relation to financing receivables as at 31 December 2018 are as follows:

	31 December 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	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>
Opening ECL allowance calculated under IFRS 9 according to the CBK guidelines	7,650	2,580	10,146	20,376
Charge during the year	10,234	504	264	11,002
Impact due to transfer between stages	(8,132)	(1,761)	9,893	-
Amounts written off net of exchange movements	-	(56)	(2,387)	(2,443)
At 31 December 2018	<u>9,752</u>	<u>1,267</u>	<u>17,916</u>	<u>28,935</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 ECL calculated under IFRS 9 according to CBK guidelines as at 31 December 2018 is as follows:

	31 December 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	10,234	504	264
Non-cash facilities	1,446	(6)	3,753	5,193
ECL charges for credit facilities (Note 16)	<u>11,680</u>	<u>498</u>	<u>4,017</u>	<u>16,195</u>

As at 31 December 2019, the expected credit losses calculated as per IFRS 9 according to the CBK guidelines amounted to KD 40,988 thousand, which is less than provisions computed as required by the CBK guidelines amounting to KD 49,239 thousand.

4 FINANCING RECEIVABLES (continued)

As at 31 December 2018, the expected credit losses calculated as per IFRS 9 according to the CBK guidelines amounted to KD 34,641 thousand, which is higher than provisions computed as required by the CBK guidelines amounting to KD 31,638 thousand.

The available provision balance on non-cash facilities of KD 6,084 thousand (2018: KD 5,706 thousand) is included under other liabilities.

5 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019 KD'000	2018 KD'000
Quoted equity instruments	7,536	7,159
Funds (unquoted)	35,267	26,430
Other securities (unquoted)	13,092	7,911
	<u>55,895</u>	<u>41,500</u>

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

	2019 KD'000	2018 KD'000
Quoted Sukuk	311,159	141,093
Unquoted Sukuk	6,398	2,000
Unquoted equity instruments	5,505	5,492
	<u>323,062</u>	<u>148,585</u>

During the year ended 31 December 2019, the management has performed a review of the financial assets at fair value through other comprehensive income to assess the ECL. Based on the assessment, the management has recognised ECL of KD 682 thousand (2018: 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.

6 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (continued)

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

	31 December 2019			
	Stage 1 KD'000	Stage 2 KD'000	Stage 3 KD'000	Total KD'000
Gross carrying amount as at 1 January 2019	137,219	5,874	-	143,093
New assets purchased (payments and assets derecognised during the year), net	176,266	(1,865)	-	174,401
Transfer between stages	-	-	-	-
Foreign exchange adjustments	61	2	-	63
At 31 December 2019	313,546	4,011	-	317,557
ECL allowance as at 1 January 2019	759	194	-	953
Impact due to purchase/de-recognition	725	(58)	-	667
Impact on year end ECL of exposures transferred between stages during the year	-	-	-	-
Re-measurement of ECL	42	(27)	-	15
At 31 December 2019	1,526	109	-	1,635
	31 December 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
New assets purchased (payments and assets derecognised during the year), net	2,241	-	-	2,241
Transfer between stages	(5,844)	5,844	-	-
Foreign exchange adjustments	682	30	-	712
At 31 December 2018	137,219	5,874	-	143,093
ECL allowance as at 1 January 2018	452	-	-	452
Impact due to purchases/de-recognition	356	-	-	356
Impact on year end ECL of exposures transferred between stages during the year	(194)	194	-	-
Re-measurement of ECL	145	-	-	145
At 31 December 2018	759	194	-	953

Notes to the Consolidated Financial Statements as at and for the year ended 31 December 2019

7 INVESTMENT IN JOINT VENTURES

The Group's interest in joint ventures is accounted for using the equity method in the consolidated financial statements. Summarised financial information of the joint ventures, based on its IFRS financial statements, and reconciliation with the carrying amount of the investment in the consolidated financial statements are set out below:

	2019 KD'000	2018 KD'000
As at 1 January	52,498	31,660
Additions	35,550	19,853
Share of results (Note 14)	7,272	3,180
Distributions received	(4,159)	(2,331)
Foreign currency translation adjustment	(154)	136
As at 31 December	<u>91,007</u>	<u>52,498</u>

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

	2019 KD'000	2018 KD'000
Summarised statement of financial position of the joint ventures:		
Current assets	33	418
Non-current assets	91,037	52,101
Current liabilities	(63)	(21)
Equity	<u>91,007</u>	<u>52,498</u>
Group's share in equity	<u>91,007</u>	<u>52,498</u>
Group's carrying amount of the investment	<u>91,007</u>	<u>52,498</u>
Summarised statement of profit or loss of the joint ventures:		
Revenue	7,523	3,397
Administrative and other expenses	(251)	(217)
Profit for the year (continuing operations)	<u>7,272</u>	<u>3,180</u>
Group's share of profit for the year	<u>7,272</u>	<u>3,180</u>

The joint ventures had capital commitments of KD 5,783 thousand as at 31 December 2019 (2018: KD 5,333 thousand) and no contingent liabilities as at 31 December 2019 and 2018.

8 INVESTMENT PROPERTIES

	2019 KD'000	2018 KD'000
Opening balance at 1 January	22,867	24,611
Sale during the year	(2,198)	-
Fair value adjustment to investment properties (Note 14)	(221)	(1,207)
Foreign currency translation adjustment	350	(537)
Closing balance at 31 December	<u>20,798</u>	<u>22,867</u>

The fair value of investment properties is determined based on valuations performed by independent and accredited valuers with recognised and relevant professional qualification and with recent experience in locations and categories of investment properties being valued. The valuation models applied are consistent with the principles in IFRS 13 and fair value is determined using a mix of the income capitalisation method and the market comparison approach considering the nature and usage of each property. Fair value using the income capitalisation method is estimated based on the normalised net operating income generated by the property, which is divided by the capitalisation (discount) rate. Under the market comparison approach, fair value is estimated based on comparable transactions. The unit of comparison applied by the Group is the price per square meter ('sqm'). Based on these valuations, the fair value of investment properties witnessed a decrease of KD 221 thousand compared to its carrying values as at 31 December 2019 (2018: decrease of KD 1,207 thousand).

Significant increases (decreases) in estimated price per square metre in isolation would result in a significantly higher (lower) fair value on a linear basis.

Significant increases (decreases) in estimated rental value and rent growth per annum in isolation would result in a significantly higher (lower) fair value of the properties. Significant increases (decreases) in the long-term vacancy rate and discount rate (and exit yield) in isolation would result in a significantly lower (higher) fair value.

Generally, a change in the assumption made for the estimated rental value is accompanied by a directionally similar change in the rent growth per annum and discount rate (and exit yield), and an opposite change in the long term vacancy rate.

	2019 KD'000	2018 KD'000
Rental income derived from investment properties	1,377	1,468
Direct operating expenses	(389)	(253)
Net rental income arising from investment properties (Note 14)	<u>988</u>	<u>1,215</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.

9 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.



10 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.

11 SUKUK ISSUED

On 24 September 2019, the Bank completed the series 1 issue of unsecured Sukuk (senior debt) amounting to US\$ 500 million with a tenor of up to 5 years maturing on 24 September 2024. Such sukuk has a fixed coupon rate of 2.982% per annum, payable semi-annually in arrears. The Sukuk is listed on the Irish Stock Exchange (Euronext Dublin) and NASDAQ Dubai.

12 EQUITY

Share capital

	2019 KD'000	2018 KD'000
Authorised, issued and fully paid: 1,500,000 thousand (2018: 1,500,000 thousand) shares with a par value of 100 fils each	<u>150,000</u>	<u>150,000</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 1,745 thousand (2018: KD 1,353 thousand) was transferred to the statutory reserve during the current year.

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.

12 EQUITY (continued)

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

Proposed distributions

	2019 KD'000	2018 KD'000
Proposed bonus shares:		
Proposed bonus shares for 2019: 5 shares for each 100 shares (2018: Nil)	<u>7,500</u>	<u>-</u>

Proposed dividends are subject to approval at the AGM and obtaining the necessary regulatory approvals and are not recognised as a liability as at 31 December.

13 PERPETUAL TIER 1 SUKUK

On 14 March 2017, the Bank, through a Shari'a 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 2019.

14 NET INVESTMENT INCOME

	2019 KD'000	2018 KD'000
Realised gain (loss) on sale of debt instruments at fair value through other comprehensive income	215	(651)
Realised gain on sale of financial assets at fair value through profit or loss	23	-
Share of results of investment in joint ventures (Note 7)	7,272	3,180
Dividend income	2,176	2,001
Net rental income from investment properties (Note 8)	988	1,215
Gain on sale of investment property	61	-
Fair value adjustment to financial assets at fair value through profit or loss	(2,358)	77
Fair value adjustment to investment properties (Note 8)	(221)	(1,207)
Other investment (loss) income	(272)	191
	<u>7,884</u>	<u>4,806</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 2,531 thousand (2018: KD 1,975 thousand).

16 PROVISION FOR IMPAIRMENT AND CREDIT LOSSES

	2019 KD'000	2018 KD'000
Expected credit losses for investments in Sukuk (Note 6)	682	501
Reversal of expected credit losses for placements with banks	(8)	(50)
Provision for impairment as per CBK guidelines (2018: ECL as per IFRS 9 according to the CBK guidelines) on credit facilities (Note 4)	19,213	16,195
Recovery of written-off financing receivables	(69)	(53)
Impairment on property and equipment	-	466
Impairment on other assets	21	5
	<u>19,839</u>	<u>17,064</u>

17 BASIC AND DILUTED EARNINGS PER SHARE (EPS)

Basic EPS amounts are calculated by dividing the profit for the year attributable to ordinary equity holders of the Bank adjusted for profit paid on Perpetual Tier 1 Sukuk by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is calculated by dividing the profit attributable to ordinary equity holders of the Bank by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares. As there are no dilutive instruments outstanding, basic and diluted earnings per share are identical.

	2019 KD'000	2018 KD'000
Net profit for the year (KD'000)	16,538	12,738
Less: profit payment on Perpetual Tier 1 Sukuk (KD'000)	(4,943)	(4,908)
	<u>11,595</u>	<u>7,830</u>
Weighted average number of shares outstanding ('000)	<u>1,500,000</u>	<u>1,109,652</u>
Basic and diluted earnings per share (fils)	<u>7.73</u>	<u>7.06</u>

There have been no transactions involving ordinary shares between the reporting date and the date of authorisation of this consolidated financial statements which would require the restatement of EPS.

18 RELATED PARTY DISCLOSURES

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.

	2019 KD'000	2018 KD'000
Salaries and benefits	2,297	2,166
End of service benefits	153	175
Directors' remuneration*	259	207
	<u>2,709</u>	<u>2,548</u>

* Directors' remuneration includes special compensation for additional contributions related to participation in the executive committees in accordance with board of directors' decisions.

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 and board of directors' members:

The Bank enters into transactions, arrangements and agreements involving senior management, board of directors' members, 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 and board of directors' members for the relevant financial year which are included in the consolidated statement of financial position:

	2019 KD'000	2018 KD'000
Financing facilities	1,439	1,469
Credit cards	4	7
Depositors' accounts	6,810	1,029

The transactions with related parties included under the contingent liabilities are as follows:

	2019 KD'000	2018 KD'000
Letter of guarantees	4	-

Notes to the Consolidated Financial Statements as at and for the year ended 31 December 2019

18 RELATED PARTY DISCLOSURES (continued)

18.2 Transactions with Bank's key management personnel and board of directors' members (continued)

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

	2019	2018
Financing facilities	6	5
Credit cards	5	7
Depositors' accounts	44	41
Letter of guarantees	1	-

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

	2019 KD'000	2018 KD'000
Placements and finance income	90	38
Finance costs and distributions to depositors	67	49

18.3 Transactions with major shareholders and other related parties:

In addition to transactions with key management personnel and board of directors' members, 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 2018 KD'000
	Major shareholders KD'000	Other related parties KD'000	Total 31 December 2019 KD'000	
Depositors' accounts	871,968	893	872,861	862,267

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

	No. of major shareholders	No. of other related parties
2019		
Depositors' accounts	2	30
2018		
Depositors' accounts	2	18

18.3 Transactions with major shareholders and other related parties:

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 2018 KD'000
	Major shareholders KD'000	Other related parties KD'000	Total 31 December 2019 KD'000	
Finance costs and distributions to depositors	20,531	-	20,531	17,791

Outstanding balances at year-end are in the ordinary course of business. The profit rates charged to, and by, related parties are at normal commercial rates. Except for guarantees of KD 2,995 thousand received for related party receivables, there are no guarantees provided for related party payables during the year ended 31 December 2019.

19 COMMITMENTS AND CONTINGENT LIABILITIES

	2019 KD'000	2018 KD'000
Acceptances and letters of credit	52,210	33,210
Letter of guarantees	115,030	91,209
Contingent liabilities	167,240	124,419
Capital commitments	28,816	223

As at 31 December 2019, irrevocable commitments to extend credit amounted to KD 9,868 thousand (31 December 2018: Nil). These include commitments to extend credit which are irrevocable over the life of the facility or are revocable only in response to a material adverse change.

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

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 and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Group has exposure to the following risks from financial instruments:

- 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.

This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to country risk and various operating and business risks.

20.1 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 Group's Risk Management principles, policies and procedures, and for reviewing the adequacy of the Risk Management framework. The Group Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Group Audit Committee.



20 RISK MANAGEMENT (continued)
20.1 Risk management structure (continued)

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 of Directors and BRC in carrying out the risk oversight responsibility.

Risk management policies are established to identify, quantify, control, mitigate, and analyse 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.

20.2. 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 Group'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*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 unlikeliness 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 analyse 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.

20 RISK MANAGEMENT (continued)
20.2. Credit risk (continued)

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 summarises 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	
	2019 KD'000	2018 KD'000
Balances with banks	98,819	16,288
Placements with banks and the CBK	225,703	256,486
Financing receivables	2,261,974	1,607,945
Financial assets at fair value through other comprehensive income (investment in Sukuk)	317,557	143,093
Other assets	14,681	10,726
	<u>2,918,734</u>	<u>2,034,538</u>
Acceptances and letters of credit	51,949	33,044
Letter of guarantees	109,207	87,071
Total	161,156	120,115
Total credit risk exposure	<u>3,079,890</u>	<u>2,154,653</u>

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 2019 amounted to KD 78,507 thousand (2018: KD 47,155 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:

	2019		2018	
	Financial assets KD'000	Off-balance sheet items KD'000	Financial assets KD'000	Off-balance sheet items KD'000
<i>Geographic region:</i>				
Kuwait	2,036,014	131,788	1,499,946	97,111
Other Middle East	603,258	6,935	345,006	184
Rest of the World	279,462	22,433	189,586	22,820
	<u>2,918,734</u>	<u>161,156</u>	<u>2,034,538</u>	<u>120,115</u>

	2019		2018	
	Financial assets KD'000	Off-balance sheet items KD'000	Financial assets KD'000	Off-balance sheet items KD'000
<i>Industry sector:</i>				
Banks and other financial institutions	796,240	6,020	501,754	5,809
Construction and Real Estate	971,357	76,776	694,272	58,033
Trading and Manufacturing	323,478	58,436	247,166	43,218
Personal	394,762	-	327,587	-
Services	239,204	19,782	186,971	12,334
Other	193,693	142	76,788	721
	<u>2,918,734</u>	<u>161,156</u>	<u>2,034,538</u>	<u>120,115</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 of financial instruments

For the year ended 31 December 2019, 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.

Notes to the Consolidated Financial Statements as at and for the year ended 31 December 2019

20 RISK MANAGEMENT (continued)
20.2 Credit risk (continued)

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 2019.

2019	High quality KD'000	Standard quality KD'000	Total KD'000
Balances with banks	98,819	-	98,819
Placements with banks and the CBK	225,976	-	225,976
Financial assets at fair value through other comprehensive income (investment in Sukuk)	202,308	115,249	317,557
Other assets	11,568	3,228	14,796
	<u>538,671</u>	<u>118,477</u>	<u>657,148</u>

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	16,288	-	-	16,288
Placements with banks and the CBK	256,758	-	-	256,758
Financial assets at fair value through other comprehensive income (investment in Sukuk)	137,219	5,874	-	143,093
Other assets	9,911	-	-	9,911
Total	<u>420,176</u>	<u>5,874</u>	<u>-</u>	<u>426,050</u>

Disclosure of credit quality and the maximum exposure for credit risk of financing receivables per categories based on the Bank's internal credit rating system and year-end stage classification are further disclosed in Note 4.

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
2019				
Financing receivables	<u>90,631</u>	<u>3,983</u>	<u>14,928</u>	<u>109,542</u>
2018				
Financing receivables	<u>17,653</u>	<u>3,940</u>	<u>2,484</u>	<u>24,077</u>

Collaterals

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

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 Bank holds relating to past due or impaired finance facilities as at 31 December 2019 was KD 114,683 thousand (2018: KD 19,588 thousand). The collaterals consist of cash, securities, sukuk, letters of guarantee, real estate assets and other forms of collateral.

20 RISK MANAGEMENT (continued)

20.3 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.

20.3.1. 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. The Group is not exposed to significant profit rate risk.

20.3.2. 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.

20.3.3. 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 profit or loss and equity (due to changes in fair value and foreign currency translation recognised in OCI).

20 RISK MANAGEMENT (continued)
20.3 Market risk (continued)

Currency	2019			2018		
	Change in currency rate %	Effect on profit or loss KD'000	Effect on equity KD'000	Change in currency rate %	Effect on profit or loss KD'000	Effect on equity KD'000
USD	±1	(872)	733	±1	(1,000)	525
EUR	±1	(713)	100	±1	2	-
GBP	±1	(137)	136	±1	(58)	59

20.3.4. 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 2019 would have increased equity by KD 377 thousand (31 December 2018: KD 358 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.

20.4 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 optimisation, 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.

20 RISK MANAGEMENT (continued)
 20.4 Liquidity risk (continued)

The maturity profile of assets and liabilities as at 31 December is as follows:

2019	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
Assets					
Cash and balances with banks	102,544	-	-	-	102,544
Placements with banks and the CBK	224,945	-	758	-	225,703
Financing receivables	1,266,542	523,682	79,395	392,355	2,261,974
Financial assets at fair value through profit or loss	-	-	-	55,895	55,895
Financial assets at fair value through other comprehensive income	13,647	14,727	-	294,688	323,062
Investments in joint ventures	-	-	-	91,007	91,007
Investment properties	-	-	-	20,798	20,798
Other assets	17,745	3,136	487	18,529	39,897
Property and equipment	-	-	-	22,803	22,803
	1,625,423	541,545	80,640	896,075	3,143,683
Liabilities					
Due to banks and other financial institutions	489,146	149,320	154,445	160,392	953,303
Depositors' accounts	939,671	513,180	225,463	27,497	1,705,811
Sukuk issued	-	-	-	152,179	152,179
Other liabilities	29,387	-	-	8,643	38,030
	1,458,204	662,500	379,908	348,711	2,849,323
2018					
	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
Assets					
Cash and balances with banks	20,015	-	-	-	20,015
Placements with banks and the CBK	251,936	4,550	-	-	256,486
Financing receivables	905,647	339,696	56,742	305,860	1,607,945
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	11,531	6,003	354	8,330	26,218
Property and equipment	-	-	-	18,358	18,358
	1,196,713	355,050	57,096	585,613	2,194,472
Liabilities					
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
Sukuk issued	-	-	-	-	-
Other liabilities	27,672	-	-	7,631	35,303
	940,973	382,363	356,696	243,512	1,923,544

Notes to the Consolidated Financial Statements as at and for the year ended 31 December 2019

20 RISK MANAGEMENT (continued)
20.4 Liquidity risk (continued)

The table below summarises 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
2019					
Due to banks and other financial institutions	490,673	161,596	146,326	160,686	959,281
Depositors' accounts	943,611	518,874	231,500	30,434	1,724,419
Sukuk issued	-	-	-	174,155	174,155
Other liabilities	29,387	-	-	8,643	38,030
	<u>1,463,671</u>	<u>680,470</u>	<u>377,826</u>	<u>373,918</u>	<u>2,895,885</u>
2018					
Due to banks and other financial institutions	307,875	177,449	281,779	78,664	845,767
Depositors' accounts	729,919	210,759	80,719	41,143	1,062,540
Sukuk issued	-	-	-	-	-
Other liabilities	27,672	-	-	7,631	35,303
	<u>1,065,466</u>	<u>388,208</u>	<u>362,498</u>	<u>127,438</u>	<u>1,943,610</u>

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
2019				
Acceptances and letters of credit	30,630	21,516	64	52,210
Letter of guarantees	23,037	46,625	45,368	115,030
Capital commitments	-	28,816	-	28,816
	<u>53,667</u>	<u>96,957</u>	<u>45,432</u>	<u>196,056</u>
2018				
Acceptances and letters of credit	26,296	6,914	-	33,210
Letter of guarantees	8,099	32,399	50,711	91,209
Capital commitments	-	223	-	223
	<u>34,395</u>	<u>39,536</u>	<u>50,711</u>	<u>124,642</u>

20.5 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.

20 RISK MANAGEMENT (continued)
 20.5 Operational risk (continued)

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 Shari’a 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
2019						
Operating income	37,025	9,439	4,588	8,641	-	59,693
Net profit	18,163	104	4,284	6,501	(12,514)	16,538
Total assets	1,866,249	395,725	328,247	490,762	62,700	3,143,683
Total liabilities	445,576	492,087	1,873,630	-	38,030	2,849,323
2018						
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	1,279,696	328,249	256,486	265,450	64,591	2,194,472
Total liabilities	172,869	363,678	1,351,694	-	35,303	1,923,544

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 maximise shareholder 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:

	2019 KD'000	2018 KD'000
Risk weighted assets	1,700,820	1,173,468
Capital required	221,107	152,551
Capital available		
Common equity Tier 1 "CET1" capital	217,997	194,565
Additional Tier 1 perpetual Sukuk	76,363	76,363
Total Tier 1 capital	294,360	270,928
Total Tier 2 capital	20,098	13,803
Total capital available	314,458	284,731
CET1 capital adequacy ratio: common equity	12.82%	%16.58
Total Tier 1 capital adequacy ratio	17.31%	%23.09
Total capital adequacy ratio	18.49%	%24.26

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:

	2019 KD'000	2018 KD'000
Tier 1 capital	294,360	270,928
Total exposure	3,267,019	2,265,808
Financial leverage ratio	9.01%	11.96%

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
2019				
<i>Assets measured at fair value</i>				
<i>Financial assets at FVTPL</i>				
Quoted equity instruments	7,536	7,536	-	-
Funds (unquoted)	35,267	-	-	35,267
Other securities (unquoted)	13,092	-	-	13,092
	<u>55,895</u>	<u>7,536</u>	<u>-</u>	<u>48,359</u>
<i>Financial assets at FVOCI</i>				
Quoted Sukuk				
- Sovereign Sukuk	185,015	185,015	-	-
- Corporate Sukuk	126,144	126,144	-	-
	<u>311,159</u>	<u>311,159</u>	<u>-</u>	<u>-</u>
Unquoted Sukuk	6,398	-	-	6,398
Unquoted equity instruments	5,505	-	-	5,505
	<u>323,062</u>	<u>311,159</u>	<u>-</u>	<u>11,903</u>
<i>Derivative financial instruments (Note 24)</i>				
Profit rate swaps	-	-	-	-

Notes to the Consolidated Financial Statements as at and for the year ended 31 December 2019

23 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)

2018	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
<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
	<u>41,500</u>	<u>7,159</u>	<u>-</u>	<u>34,341</u>
<i>Financial assets at FVOCI</i>				
<i>Quoted Sukuk</i>				
- Sovereign Sukuk	43,683	43,683	-	-
- Corporate Sukuk	97,410	97,410	-	-
	<u>141,093</u>	<u>141,093</u>	<u>-</u>	<u>-</u>
Unquoted Sukuk	2,000	-	-	2,000
Unquoted equity instruments	5,492	-	-	5,492
	<u>148,585</u>	<u>141,093</u>	<u>-</u>	<u>7,492</u>
<i>Derivative financial instruments (Note 24)</i>				
Profit rate swaps	<u>57</u>	<u>57</u>	<u>-</u>	<u>-</u>

Movements in Level 3 financial instruments measured at fair value

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

	At 1 January 2019 KD'000	Additions KD'000	Sales/ redemptions KD'000	Change in fair value KD'000	Exchange rate movements KD'000	At 31 December 2019 KD'000
Financial assets at FVTPL						
Funds (unquoted)	26,430	14,078	(2,225)	(3,016)	-	35,267
Other securities (unquoted)	7,911	5,285	(112)	8	-	13,092
	<u>34,341</u>	<u>19,363</u>	<u>(2,337)</u>	<u>(3,008)</u>	<u>-</u>	<u>48,359</u>
Financial assets at FVOCI						
Unquoted Sukuk	2,000	6,398	(2,000)	-	-	6,398
Unquoted equity instruments	5,492	-	-	13	-	5,505
	<u>7,492</u>	<u>6,398</u>	<u>(2,000)</u>	<u>13</u>	<u>-</u>	<u>11,903</u>

23 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)

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	Sales/ redemptions KD'000	Change in fair value KD'000	Exchange rate movements KD'000	At 31 December 2018 KD'000
Financial assets at FVTPL							
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
Financial assets at FVOCI							
Unquoted Sukuk	2,000	-	-	-	-	-	2,000
Unquoted equity instruments	-	4,633	10	-	849	-	5,492
	2,000	4,633	10	-	849	-	7,492

During the years ended 31 December 2019 and 2018, there were no transfer between fair value hierarchy levels.

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 2019		31 December 2018	
	Fair value KD 000's	Notional KD 000's	Positive fair value KD 000's	Notional KD 000's
Profit rate swaps (held as cash flow hedge)	-	-	57	120,840

During the year ended 31 December 2019, the Group's hedging relationships with respect to the profit rate swaps have been terminated and accordingly, the cumulative changes in fair value previously recognised in OCI relating to the hedging instrument have been recycled to profit or loss as a reclassification adjustment.

International Rating

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