

WARBA BANK K.S.C.P.
INTERIM CONDENSED
CONSOLIDATED FINANCIAL
INFORMATION
30 JUNE 2017 (UNAUDITED)



Building a better
working world

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

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Warba Bank K.S.C.P. (the "Bank") and its subsidiaries (collectively "the Group") as at 30 June 2017, and the related interim condensed consolidated statement of income, statement of comprehensive income for the three month and six month periods then ended, and the related interim condensed consolidated statement of changes in equity and interim condensed consolidated statement of cash flows for the six month period then ended. The management of the Bank is responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with the basis of presentation set out in Note 2. Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review.

Scope of Review

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

Conclusion

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

Report on other Legal and Regulatory Requirements

Furthermore, based on our review, the interim condensed consolidated financial information is in agreement with the books of account of the Bank. We further report that, to the best of our knowledge and belief, we have not become aware of any violations of the Companies Law No 1 of 2016, as amended, the Executive Regulations, or of the Bank's Articles of Associations and Memorandum of Incorporation during the six month period ended 30 June 2017 that might have had a material effect on the business of the Bank or on its financial position.

We further report that, during the course of our review, to the best of our knowledge and belief, we have not become aware of any violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organisation of banking business, and its related regulations, during the six month period ended 30 June 2017 that might have had a material effect on the business of the Bank or on its financial position.

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

SAFI A. AL-MUTAWA
LICENSE NO. 138A
KPMG Safi Al-Mutawa & Partners
MEMBER FIRM OF KPMG INTERNATIONAL

10 July 2017
Kuwait

Warba Bank K.S.C.P.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

As at 30 June 2017

| | | 30 June 2017 KD'000 | (Audited) 31 December 2016 KD'000 | 30 June 2016 KD'000 |
|--|---|---------------------------|--|---------------------------|
| ASSETS | | | | |
| Cash and balances with banks | 3 | 6,783 | 5,480 | 10,621 |
| Placements with banks and CBK | | 170,145 | 166,940 | 125,328 |
| Financing receivables | | 1,131,831 | 827,872 | 675,346 |
| Available-for-sale investments | | 135,176 | 99,825 | 79,912 |
| Investment properties | | 24,176 | 14,815 | 15,022 |
| Other assets | | 24,196 | 6,387 | 5,798 |
| Property and equipment | | 5,793 | 5,643 | 6,003 |
| TOTAL ASSETS | | 1,498,100 | 1,126,962 | 918,030 |
| LIABILITIES AND EQUITY | | | | |
| LIABILITIES | | | | |
| Due to banks and other financial institutions | | 402,968 | 274,131 | 222,059 |
| Depositors' accounts | | 911,528 | 750,498 | 596,401 |
| Other liabilities | | 9,930 | 7,561 | 6,474 |
| TOTAL LIABILITIES | | 1,324,426 | 1,032,190 | 824,934 |
| EQUITY | | | | |
| Share capital | | 100,000 | 100,000 | 100,000 |
| Accumulated losses | | (2,736) | (4,798) | (6,918) |
| Fair value reserve | | 47 | (430) | 14 |
| EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE BANK | | 97,311 | 94,772 | 93,096 |
| Perpetual Tier 1 Sukuk | 9 | 76,363 | - | - |
| TOTAL EQUITY | | 173,674 | 94,772 | 93,096 |
| TOTAL LIABILITIES AND EQUITY | | 1,498,100 | 1,126,962 | 918,030 |

Abdulwahab A. Al Houti
Chairman

Shaheen H. Al Ghanem
Chief Executive Officer

Warba Bank K.S.C.P.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME
(UNAUDITED)

For the period ended 30 June 2017

| | <i>Three months ended</i> | | <i>Six months ended</i> | |
|---|---------------------------|------------------|-------------------------|------------------|
| | <i>30 June</i> | | <i>30 June</i> | |
| <i>Note</i> | <i>2017</i> | <i>2016</i> | <i>2017</i> | <i>2016</i> |
| | <i>KD'000</i> | <i>KD'000</i> | <i>KD'000</i> | <i>KD'000</i> |
| Placements and financing income | 12,352 | 7,285 | 22,529 | 13,836 |
| Finance costs and distribution to depositors | (5,049) | (3,503) | (9,496) | (6,602) |
| Net financing income | 7,303 | 3,782 | 13,033 | 7,234 |
| Net investment income | 1,189 | 809 | 2,286 | 1,737 |
| Net fees and commission | 498 | 600 | 1,148 | 802 |
| Other income | 44 | 60 | 100 | 105 |
| Foreign exchange gain | 86 | 90 | 248 | 231 |
| Operating income | 9,120 | 5,341 | 16,815 | 10,109 |
| Staff costs | (2,937) | (2,460) | (5,531) | (4,860) |
| General and administrative expenses | (1,117) | (1,003) | (2,092) | (1,813) |
| Depreciation | (275) | (407) | (650) | (823) |
| Operating expenses | (4,329) | (3,870) | (8,273) | (7,496) |
| Operating profit before provision for impairment | 4,791 | 1,471 | 8,542 | 2,613 |
| Provision for impairment | (3,524) | (1,356) | (5,921) | (2,156) |
| Profit before deductions | 1,267 | 115 | 2,621 | 457 |
| National Labor Support Tax (NLST) | (34) | 9 | (70) | (1) |
| Zakat | (14) | 3 | (28) | (1) |
| Net profit for the period | 1,219 | 127 | 2,523 | 455 |
| Basic and diluted earnings per share | 1.22 fils | 0.13 fils | 2.52 fils | 0.46 fils |

The accompanying notes 1 to 9 form an integral part of this interim condensed consolidated financial information.

Warba Bank K.S.C.P.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE
INCOME (UNAUDITED)

For the period ended 30 June 2017

| | <i>Three months ended</i> | | <i>Six months ended</i> | |
|--|---------------------------|---------------|-------------------------|---------------|
| | <i>30 June</i> | | <i>30 June</i> | |
| | <i>2017</i> | <i>2016</i> | <i>2017</i> | <i>2016</i> |
| | <i>KD'000</i> | <i>KD'000</i> | <i>KD'000</i> | <i>KD'000</i> |
| Net profit for the period | 1,219 | 127 | 2,523 | 455 |
| Other comprehensive income: | | | | |
| <i>Items that are or may be reclassified subsequently to interim condensed consolidated statement of income</i> | | | | |
| Change in fair value of available-for-sale investments | 185 | 63 | 550 | 385 |
| Gain on sale of available-for-sale investments realized during the period, transferred to interim condensed consolidated statement of income | (62) | - | (73) | (24) |
| Other comprehensive income for the period | 123 | 63 | 477 | 361 |
| Total comprehensive income for the period | 1,342 | 190 | 3,000 | 816 |

The accompanying notes 1 to 9 form an integral part of this interim condensed consolidated financial information.

Warba Bank K.S.C.P.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the period ended 30 June 2017

| | Share capital KD '000 | Accumulated losses KD '000 | Fair value reserve KD '000 | Equity attributable to shareholders of the Bank KD '000 | Perpetual Tier 1 Sukuk KD '000 | Total equity KD '000 |
|---|--------------------------|-------------------------------|-------------------------------|--|-----------------------------------|-------------------------|
| Balance at 1 January 2017 (audited) | 100,000 | (4,798) | (430) | 94,772 | - | 94,772 |
| Net profit for the period | - | 2,523 | - | 2,523 | - | 2,523 |
| Other comprehensive income | - | - | 477 | 477 | - | 477 |
| Total comprehensive income for the period | - | 2,523 | 477 | 3,000 | - | 3,000 |
| Issue of Perpetual Tier 1 Sukuk (Note 9) | - | - | - | - | 75,363 | 76,363 |
| Transaction costs on issue of Perpetual Tier 1 Sukuk (Note 9) | - | (461) | - | (461) | - | (461) |
| Balance at 30 June 2017 | 100,000 | (2,736) | 47 | 97,311 | 76,363 | 173,674 |

| | Share capital KD '000 | Accumulated losses KD '000 | Fair value reserve KD '000 | Equity attributable to shareholders of the Bank KD '000 | Perpetual Tier 1 Sukuk KD '000 | Total equity KD '000 |
|---|--------------------------|-------------------------------|-------------------------------|--|-----------------------------------|-------------------------|
| Balance at 1 January 2016 (audited) | 100,000 | (7,373) | (347) | 92,280 | - | 92,280 |
| Net profit for the period | - | 455 | - | 455 | - | 455 |
| Other comprehensive income | - | - | 361 | 361 | - | 361 |
| Total comprehensive income for the period | - | 455 | 361 | 816 | - | 816 |
| Balance at 30 June 2016 | 100,000 | (6,918) | 14 | 93,096 | - | 93,096 |

The accompanying notes 1 to 9 form an integral part of this interim condensed consolidated financial information.

Warba Bank K.S.C.P.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(UNAUDITED)

For the period ended 30 June 2017

| | Note | Six months ended 30 June | |
|---|------|-----------------------------|-----------------|
| | | 2017 KD'000 | 2016 KD'000 |
| OPERATING ACTIVITIES | | | |
| Net profit for the period | | 2,523 | 455 |
| Adjustments for: | | | |
| Realised gain on sale of available-for-sale investments | | (73) | (24) |
| Dividend income | | (577) | (489) |
| Sukuk income | | (1,365) | (861) |
| Net rental income from investment properties | | (271) | (363) |
| Provision for end of service benefits | | 201 | 115 |
| Depreciation | | 650 | 823 |
| Provision for impairment | | 5,921 | 2,156 |
| | | <u>7,009</u> | <u>1,812</u> |
| <i>Changes in operating assets and liabilities:</i> | | | |
| Placements with banks | | (13,363) | (32,103) |
| Financing receivables | | (309,708) | (133,636) |
| Other assets | | (17,678) | (949) |
| Due to banks and other financial institutions | | 128,837 | (22,274) |
| Depositors' accounts | | 161,030 | 162,936 |
| Other liabilities | | 2,825 | 548 |
| | | <u>(41,048)</u> | <u>(23,666)</u> |
| Net cash used in operating activities | | | |
| INVESTING ACTIVITIES | | | |
| Purchase of available-for-sale investments | | (64,791) | (22,869) |
| Proceeds from sale and redemption of available-for-sale investments | | 28,998 | 11,590 |
| Purchase of investment property | | (9,483) | - |
| Purchase of property and equipment | | (800) | (450) |
| Dividend income received | | 577 | 489 |
| Sukuk income received | | 1,347 | 1,046 |
| Rental income received | | 443 | 506 |
| | | <u>(43,709)</u> | <u>(9,688)</u> |
| Net cash used in investing activities | | | |
| FINANCING ACTIVITIES | | | |
| Perpetual Tier 1 Sukuk issuing costs | 9 | (461) | - |
| Proceeds from issue of Perpetual Tier 1 Sukuk | 9 | 76,363 | - |
| | | <u>75,902</u> | <u>-</u> |
| Net cash generated from financing activities | | | |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | | | |
| | | <u>(8,855)</u> | <u>(33,354)</u> |
| Cash and cash equivalents at 1 January | | 116,505 | 127,636 |
| | | <u>107,650</u> | <u>94,282</u> |
| CASH AND CASH EQUIVALENTS AT 30 JUNE | 3 | | |

The accompanying notes 1 to 9 form an integral part of this interim condensed consolidated financial information.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
INFORMATION (UNAUDITED)

As at 30 June 2017

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 Amiri Decree No. 289/2009, listed on the Kuwait Stock Exchange and 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. 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 in the State of Kuwait in accordance with the principles of Sharia'h, as approved by the Bank's Sharia'h Supervisory Board.

The Annual General Meeting ("AGM") of the shareholders of the Bank to approve the financial statements for the year ended 31 December 2016 was held on 14 March 2017. No cash dividend or bonus shares for the year ended 31 December 2016 (31 December 2015: nil) were proposed by the Directors and approved by the shareholders at the AGM.

This interim condensed consolidated financial information as at and for the six months period ended 30 June 2017 incorporates the financial information of the Bank and its wholly owned special purpose vehicles (together referred to as "the Group").

This interim condensed consolidated financial information has been approved for issue by the Board of Directors on 10 July 2017 .

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The interim condensed consolidated financial information of the Group has been prepared in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting* except as noted below.

The annual financial statements for the year ended 31 December 2016 were prepared in accordance with the regulations of the State of Kuwait for financial services institutions regulated by the CBK. These regulations require adoption of all International Financial Reporting Standards ("IFRS") except for the International Accounting Standard ("IAS") 39, *Financial Instruments: Recognition and Measurement* requirement for collective provision, which has been replaced by the CBK's requirement for a minimum general provision.

The interim condensed consolidated financial information do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Bank's annual financial statements as at 31 December 2016.

In the opinion of management, all adjustments consisting of normal recurring accruals considered necessary for a fair presentation have been included. The operating results for the six months period ended 30 June 2017 are not necessarily indicative of the results that may be expected for the year ending 31 December 2017.

New standards and amendments adopted by the Bank

The accounting policies used in the preparation of the interim condensed consolidated financial information are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2016, except for the adoption of new accounting policy on consolidation, the amendments and annual improvements to IFRSs, relevant to the Group which are effective for annual reporting period starting from 1 January 2017 and did not result in any material impact on the accounting policies, financial position or performance of the Group.

Basis of consolidation

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

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
INFORMATION (UNAUDITED)

As at 30 June 2017

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

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 subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the period are included in the Group's interim condensed consolidated financial information from the date the Group gains control until the date the Group ceases to control the subsidiary.

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

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

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

Standards issued but not yet effective

Standards issued but not yet effective during the period ended 30 June 2017 are listed below:

IFRS 16 – Leases

In January 2016, the IASB issued IFRS 16, *Leases*. The new standard requires lessees to recognise assets and liabilities for most leases on-balance sheet. Lessees applying IFRS 16 will have a single accounting model, with certain exemptions. Lessors applying IFRS 16 will classify leases using the same principle as in IAS 17 and lessor accounting is substantially unchanged.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted for entities that apply IFRS 15 *Revenue from Contracts with Customers* at or before the date of initial application of IFRS 16.

The Bank intends to adopt this standard when it becomes effective. However, the Bank expects no material impact from the adoption on its financial position or performance.

Warba Bank K.S.C.P.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
INFORMATION (UNAUDITED)

As at 30 June 2017

3 CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the interim condensed consolidated statement of cash flows consist of the following:

| | <i>30 June</i> <i>2017</i> <i>KD'000</i> | <i>(Audited)</i> <i>31 December</i> <i>2016</i> <i>KD'000</i> | <i>30 June</i> <i>2016</i> <i>KD'000</i> |
|--|--|--|--|
| Cash | 2,826 | 1,616 | 1,656 |
| Current account with the CBK | 776 | 352 | 5,149 |
| Current account with commercial banks | 3,181 | 3,512 | 3,816 |
| | <hr/> | <hr/> | <hr/> |
| Cash and balances with banks | 6,783 | 5,480 | 10,621 |
| Placements with the CBK whose original maturity is within 3 months | 25,046 | 44,054 | 33,532 |
| Placements with banks whose original maturity is within 3 months | 75,821 | 66,971 | 50,129 |
| | <hr/> | <hr/> | <hr/> |
| | 107,650 | 116,505 | 94,282 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |

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

4 BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share are calculated by dividing net profit for the period of the Bank by the weighted average number of shares outstanding during the period as follows:

| | <i>Three months ended 30 June</i> | | <i>Six months ended 30 June</i> | |
|--|-----------------------------------|-------------|---------------------------------|-------------|
| | <i>2017</i> | <i>2016</i> | <i>2017</i> | <i>2016</i> |
| Net profit for the period (KD'000) | 1,219 | 127 | 2,523 | 455 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Weighted average number of shares outstanding (shares'000) | 1,000,000 | 1,000,000 | 1,000,000 | 1,000,000 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Basic and diluted earnings per share (fils) | 1.22 fils | 0.13 fils | 2.52 fils | 0.46 fils |
| | <hr/> | <hr/> | <hr/> | <hr/> |

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

Warba Bank K.S.C.P.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

As at 30 June 2017

5 TRANSACTIONS WITH RELATED PARTIES

These are transactions with certain related parties (major shareholders, directors and executive officers of the Bank, close members of their families and companies in which they are principal owners or over which they are able to exercise significant influence) who were customers of the Bank in the ordinary course of business. Such transactions were made on substantially the same terms including profit and collateral as those prevailing at the same time for comparable transactions with unrelated parties and did not involve more than a normal amount of risk.

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

| | <i>Major shareholders</i> | <i>Board members and executive officials</i> | <i>Other related parties</i> | <i>Total 30 June 2017</i> | <i>(Audited)</i> | |
|----------------------|---------------------------|--|------------------------------|---------------------------|-------------------------------|---------------------------|
| | | | | | <i>Total 31 December 2016</i> | <i>Total 30 June 2016</i> |
| | <i>KD'000</i> | <i>KD'000</i> | <i>KD'000</i> | <i>KD'000</i> | <i>KD'000</i> | <i>KD'000</i> |
| Financing receivable | - | 943 | 21 | 964 | 134 | 114 |
| Credit cards | - | 8 | 1 | 9 | 49 | 18 |
| Depositors' accounts | 524,336 | 527 | 131 | 524,994 | 394,011 | 257,622 |

| | <i>No. of major shareholders</i> | <i>No. of Board members and executive officials</i> | <i>No. of other related parties</i> |
|----------------------|----------------------------------|---|-------------------------------------|
| Financing receivable | - | 8 | 2 |
| Credit cards | - | 6 | 2 |
| Depositors' accounts | 2 | 23 | 13 |

Transactions with related parties recorded in the interim condensed consolidated statement of income are as follows:

| | <i>Major shareholders</i> | <i>Board members and executive officials</i> | <i>Other related parties</i> | <i>Total 30 June 2017</i> | <i>Total 30 June 2016</i> |
|---|---------------------------|--|------------------------------|---------------------------|---------------------------|
| | <i>KD'000</i> | <i>KD'000</i> | <i>KD'000</i> | <i>KD'000</i> | <i>KD'000</i> |
| Placements and financing income | - | 40 | 15 | 55 | 2 |
| Finance costs and distributions to depositors | 3,987 | - | 1 | 3,988 | 2,182 |

Compensation to key management personnel:

| | <i>Three months ended 30 June</i> | | <i>Six months ended 30 June</i> | |
|--|-----------------------------------|---------------|---------------------------------|---------------|
| | <i>2017</i> | <i>2016</i> | <i>2017</i> | <i>2016</i> |
| | <i>KD'000</i> | <i>KD'000</i> | <i>KD'000</i> | <i>KD'000</i> |
| Salaries and other short-term benefits | 421 | 248 | 807 | 629 |
| Post-employment benefits | 41 | 16 | 81 | 48 |
| | <u>462</u> | <u>264</u> | <u>888</u> | <u>677</u> |

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

As at 30 June 2017

6 COMMITMENTS AND CONTINGENT LIABILITIES

| | <i>30 June 2017 KD'000</i> | <i>(Audited) 31 December 2016 KD'000</i> | <i>30 June 2016 KD'000</i> |
|-----------------------------------|------------------------------------|--|------------------------------------|
| Acceptances and letters of credit | 31,055 | 9,140 | 13,728 |
| Letter of guarantees | 53,420 | 41,156 | 28,203 |
| Contingent liabilities | <u>84,475</u> | <u>50,296</u> | <u>41,931</u> |
| Capital commitments | <u>126</u> | <u>238</u> | <u>392</u> |

7 SEGMENT REPORTING

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 Ijarah 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 the Bank's funding operations management, local and international Murabaha and other Islamic financing primarily with banks & 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 period and total assets information regarding the Group's reportable segments.

| | <i>Corporate KD'000</i> | <i>Retail KD'000</i> | <i>Treasury KD'000</i> | <i>Investment KD'000</i> | <i>Other KD'000</i> | <i>Total KD'000</i> |
|--------------------------|-----------------------------|--------------------------|----------------------------|------------------------------|-------------------------|-------------------------|
| <i>30 June 2017</i> | | | | | | |
| Segment operating income | 11,018 | 3,009 | 787 | 2,001 | - | 16,815 |
| Segment result | <u>5,834</u> | <u>(1,042)</u> | <u>662</u> | <u>1,676</u> | <u>(4,607)</u> | <u>2,523</u> |
| Segment assets | <u>909,324</u> | <u>222,507</u> | <u>170,145</u> | <u>159,352</u> | <u>36,772</u> | <u>1,498,100</u> |
| <i>30 June 2016</i> | | | | | | |
| Segment operating income | 5,747 | 2,330 | 357 | 1,675 | - | 10,109 |
| Segment result | <u>4,032</u> | <u>(1,062)</u> | <u>283</u> | <u>1,288</u> | <u>(4,086)</u> | <u>455</u> |
| Segment assets | <u>528,367</u> | <u>146,979</u> | <u>125,328</u> | <u>94,934</u> | <u>22,422</u> | <u>918,030</u> |

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

As at 30 June 2017

8 FAIR VALUE 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 Bank 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 instruments recorded at fair value by level of the fair value hierarchy:

| | | | <i>Fair value measurement</i> | | |
|--------------------------------------|--------------------------|---------------|--|--|--|
| | | | <i>Quoted prices in active markets (Level 1)</i> | <i>Significant observable inputs (Level 2)</i> | <i>Significant unobservable inputs (Level 3)</i> |
| 30 June 2017 | Date of valuation | Total | | | |
| | | KD'000 | KD'000 | KD'000 | KD'000 |
| <i>Assets measured at fair value</i> | | | | | |
| Available-for-sale investments | | | | | |
| Quoted Sukuk | | 107,061 | 107,061 | - | - |
| - Government Sukuk | 30 June 2017 | 35,337 | 35,337 | - | - |
| - Corporate Sukuk | 30 June 2017 | 71,724 | 71,724 | - | - |
| Quoted equity security | 30 June 2017 | 741 | 741 | - | - |
| Unquoted Sukuk | 30 June 2017 | 2,000 | - | - | 2,000 |
| Managed portfolio | 30 June 2017 | 4,143 | - | - | 4,143 |
| <i>Fair value measurement</i> | | | | | |
| | | | <i>Quoted prices in active markets (Level 1)</i> | <i>Significant observable inputs (Level 2)</i> | <i>Significant unobservable inputs (Level 3)</i> |
| | | Total | KD'000 | KD'000 | KD'000 |
| <i>Assets measured at fair value</i> | | | | | |
| Available-for-sale | | | | | |
| Investments | | | | | |
| Quoted Sukuk | | 71,820 | 71,820 | - | - |
| - Government Sukuk | 31 December 2016 | 31,009 | 31,009 | - | - |
| - Corporate Sukuk | 31 December 2016 | 40,811 | 40,811 | - | - |
| Quoted equity security | 31 December 2016 | 837 | 837 | - | - |
| Unquoted Sukuk | 31 December 2016 | 2,000 | - | - | 2,000 |
| Managed portfolio | 31 December 2016 | 4,281 | - | - | 4,281 |

Warba Bank K.S.C.P.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

As at 30 June 2017

8 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

| 30 June 2016 | Date of valuation | Total KD'000 | Fair value measurement | | |
|--------------------------------------|-------------------|-----------------|--|--|--|
| | | | 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> | | | | | |
| Available-for-sale investments | | | | | |
| Quoted Sukuk | | | | | |
| - | Government Sukuk | 30 June 2016 | 59,536 | 59,536 | - |
| - | Corporate Sukuk | 30 June 2016 | 31,147 | 31,147 | - |
| - | | 30 June 2016 | 28,389 | 28,389 | - |
| Quoted equity security | | | | | |
| - | | 30 June 2016 | 825 | 825 | - |

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

| | At 1 January 2017 KD 000's | Change in fair value KD 000's | Impairment KD 000's | Additions KD 000's | Sale/ redemption KD 000's | Exchange rate movements KD 000's | At 30 June 2017 KD 000's |
|---|-------------------------------------|-------------------------------------|------------------------|-----------------------|---------------------------------|---|--------------------------------|
| Available for sale investments | | | | | | | |
| Unquoted Sukuk | 2,000 | - | - | - | - | - | 2,000 |
| Managed Portfolio | 4,281 | - | - | - | (138) | - | 4,143 |
| | 6,281 | - | - | - | (138) | - | 6,143 |

During the year ended 31 December 2016, Bank made an investment in unquoted sukuk and a managed portfolio amounting to KD 2,000 thousand and KD 4,281 thousand respectively and was classified under Level 3 of the fair value hierarchy.

No financial assets were classified under Level 3 of the fair value hierarchy during the period ended 30 June 2016.

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.

The impact on the interim condensed consolidated statement of financial position and the interim condensed consolidated statement of income would be immaterial if the relevant risk variables used to fair value the unquoted securities were altered by 5 percent.

9 PERPETUAL TIER 1 SUKUK

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

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

At the Bank's sole discretion, it may elect not to make any Mudaraba distributions expected and in such event, the Mudaraba profit will not be accumulated and the event is not considered an event of default.