

WARBA BANK K.S.C.P.

**INTERIM CONDENSED
CONSOLIDATED FINANCIAL
INFORMATION**

30 SEPTEMBER 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 September 2017, and the related interim condensed consolidated statement of income, statement of comprehensive income for the three month and nine 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 nine 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 nine month period ended 30 September 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 nine month period ended 30 September 2017 that might have had a material effect on the business of the Bank or on its financial position.

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EY
(AL AIBAN, AL OSAIMI & PARTNERS)


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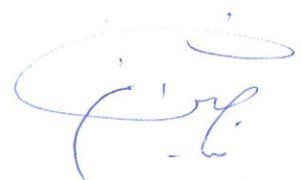
Warba Bank K.S.C.P.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

As at 30 September 2017

		(Audited)	
	30 September	31 December	30 September
	2017	2016	2016
Notes	KD'000	KD'000	KD'000
ASSETS			
Cash and balances with banks	3	17,847	5,480
Placements with banks and CBK		223,271	166,940
Financing receivables		1,223,105	827,872
Available-for-sale investments		137,207	99,825
Investment in joint ventures	4	20,962	-
Investment properties		23,982	14,815
Other assets		17,541	6,387
Property and equipment		5,622	5,643
TOTAL ASSETS		1,669,537	1,126,962
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks and other financial institutions		520,237	274,131
Depositors' accounts		962,674	750,498
Other liabilities		13,708	7,561
TOTAL LIABILITIES		1,496,619	1,032,190
EQUITY			
Share capital		100,000	100,000
Accumulated losses		(2,960)	(4,798)
Fair value reserve		(485)	(430)
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE BANK		96,555	94,772
Perpetual Tier 1 Sukuk	10	76,363	-
TOTAL EQUITY		172,918	94,772
TOTAL LIABILITIES AND EQUITY		1,669,537	1,032,782


Abdulwahab A. Al Houti
Chairman


Shaheen H. Al Ghanem
Chief Executive Officer

The accompanying notes 1 to 10 form an integral part of this interim condensed consolidated financial information.

Warba Bank K.S.C.P.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME
(UNAUDITED)

For the period ended 30 September 2017

	Note	Three months ended 30 September		Nine months ended 30 September	
		2017 KD'000	2016 KD'000	2017 KD'000	2016 KD'000
Placements and financing income		13,990	8,089	36,519	21,925
Finance costs and distribution to depositors		(6,369)	(3,859)	(15,865)	(10,461)
Net financing income		7,621	4,230	20,654	11,464
Net investment income		1,546	1,048	3,832	2,785
Net fees and commission		559	186	1,707	988
Other income		90	47	190	152
Foreign exchange gain		169	121	417	352
Operating income		9,985	5,632	26,800	15,741
Staff costs		(3,182)	(2,603)	(8,713)	(7,463)
General and administrative expenses		(1,317)	(1,041)	(3,409)	(2,854)
Depreciation		(281)	(369)	(931)	(1,192)
Operating expenses		(4,780)	(4,013)	(13,053)	(11,509)
Operating profit before provision for impairment		5,205	1,619	13,747	4,232
Provision for impairment		(2,879)	(1,178)	(8,800)	(3,334)
Profit before deductions		2,326	441	4,947	898
National Labor Support Tax (NLST)		(70)	(14)	(140)	(15)
Zakat		(27)	(5)	(55)	(6)
Net profit for the period		2,229	422	4,752	877
Basic and diluted (loss) earnings per share	5	(0.22) fils	0.42 fils	2.30 fils	0.88 fils

The accompanying notes 1 to 10 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 September 2017

	<i>Three months ended</i> <i>30 September</i>		<i>Nine months ended</i> <i>30 September</i>	
	<i>2017</i> <i>KD'000</i>	<i>2016</i> <i>KD'000</i>	<i>2017</i> <i>KD'000</i>	<i>2016</i> <i>KD'000</i>
Net profit for the period	2,229	422	4,752	877
Other comprehensive income:				
<i>Items that are or may be reclassified subsequently</i> <i>to interim condensed consolidated statement of</i> <i>income</i>				
Change in fair value of available-for-sale investments	(423)	172	127	557
Gain on sale of available-for-sale investments realized during the period, transferred to interim condensed consolidated statement of income	(109)	(1)	(182)	(25)
Other comprehensive (loss) income for the period	(532)	171	(55)	532
Total comprehensive income for the period	1,697	593	4,697	1,409

The accompanying notes 1 to 10 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 September 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	-	4,752	-	4,752	-	4,752
Other comprehensive loss	-	-	(55)	(55)	-	(55)
Total comprehensive income for the period	-	4,752	(55)	4,697	-	4,697
Issue of Perpetual Tier 1 Sukuk (Note 10)	-	-	-	-	76,363	76,363
Transaction costs on issue of Perpetual Tier 1 Sukuk (Note 10)	-	(463)	-	(463)	-	(463)
Profit paid on Perpetual Tier 1 Sukuk (Note 10)	-	(2,451)	-	(2,451)	-	(2,451)
Balance at 30 September 2017	100,000	(2,960)	(485)	96,555	76,363	172,918

	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	-	877	-	877	-	877
Other comprehensive income	-	-	532	532	-	532
Total comprehensive income for the period	-	877	532	1,409	-	1,409
Balance at 30 September 2016	100,000	(6,496)	185	93,689	-	93,689

The accompanying notes 1 to 10 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)

As at 30 September 2017

	Notes	Nine months ended 30 September	
		2017 KD'000	2016 KD'000
OPERATING ACTIVITIES			
Net profit for the period		4,752	877
Adjustments for:			
Realised gain on sale of available-for-sale investments		(182)	(25)
Dividend income		(903)	(890)
Sukuk income		(2,364)	(1,347)
Net rental income from investment properties		(383)	(523)
Provision for end of service benefits		741	224
Depreciation		931	1,192
Provision for impairment		8,800	3,334
		<u>11,392</u>	<u>2,842</u>
<i>Changes in operating assets and liabilities:</i>			
Placements with banks		(16,457)	(44,192)
Financing receivables		(403,796)	(214,296)
Other assets		(10,483)	(1,618)
Due to banks and other financial institutions		246,106	(25,785)
Depositors' accounts		212,176	279,990
Other liabilities		6,071	1,088
		<u>45,009</u>	<u>(1,971)</u>
INVESTING ACTIVITIES			
Purchase of available-for-sale investments		(111,646)	(26,927)
Proceeds from sale and redemption of available-for-sale investments		73,073	12,491
Purchase of investment in joint ventures		(20,962)	-
Purchase of investment property		(9,352)	-
Purchase of property and equipment		(910)	(492)
Dividend income received		903	890
Sukuk income received		1,868	1,450
Rental income received		809	736
		<u>(66,217)</u>	<u>(11,852)</u>
FINANCING ACTIVITIES			
Perpetual Tier 1 Sukuk issuing costs	10	(463)	-
Proceeds from issue of Perpetual Tier 1 Sukuk	10	76,363	-
Profit paid on perpetual Tier 1 Sukuk	10	(2,451)	-
		<u>73,449</u>	<u>-</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at 1 January		116,505	127,636
		<u>52,241</u>	<u>(13,823)</u>
CASH AND CASH EQUIVALENTS AT 30 SEPTEMBER	3	<u>168,746</u>	<u>113,813</u>

The accompanying notes 1 to 10 form an integral part of this interim condensed consolidated financial information.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
INFORMATION (UNAUDITED)

As at 30 September 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 nine months period ended 30 September 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 9 October 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 nine months period ended 30 September 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, joint venture, 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 September 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.

Investment in joint venture

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

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

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

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

The aggregate of the Group's share of profit or loss of joint venture is recognized in the interim condensed consolidated statement of income.

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
INFORMATION (UNAUDITED)

As at 30 September 2017

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**Investment in joint venture (continued)**

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

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

Standards issued but not yet effective

Standards issued but not yet effective during the period ended 30 September 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 Group intends to adopt this standard when it becomes effective. However, the Group expects no material impact from the adoption on its financial position or performance.

3 CASH AND CASH EQUIVALENTS

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

	30 September 2017	<i>(Audited)</i> 31 December 2016	30 September 2016
	KD'000	KD'000	KD'000
Cash	4,827	1,616	2,027
Current account with the CBK	8,710	352	287
Current account with commercial banks	4,310	3,512	3,816
Cash and balances with banks	<u>17,847</u>	<u>5,480</u>	<u>6,130</u>
Placements with the CBK whose original maturity is within 3 months	22,054	44,054	42,048
Placements with banks whose original maturity is within 3 months	128,845	66,971	65,635
	<u><u>168,746</u></u>	<u><u>116,505</u></u>	<u><u>113,813</u></u>

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

As at 30 September 2017

4 INVESTMENT IN JOINT VENTURES

During the period, the Group has invested in Joint Ventures with an ownership interest between 50% to 99%. These investments are in the form of properties through joint ventures with the respective operators/assets managers, where the Group is jointly involved in the operating of rental properties. The Group's interests in these real estate joint ventures are accounted for using the equity method in the interim condensed consolidated financial information. The Group's share of these real estate joint ventures is equivalent to their carrying value as of the 30 September 2017.

5 BASIC AND DILUTED (LOSS) EARNINGS PER SHARE

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

	<i>Three months ended 30 September</i>		<i>Nine months ended 30 September</i>	
	<i>2017</i>	<i>2016</i>	<i>2017</i>	<i>2016</i>
Net profit for the period (KD'000)	2,229	422	4,752	877
Less: profit payment on Perpetual Tier 1 Sukuk	(2,451)	-	(2,451)	-
	(222)	422	2,301	877
Weighted average number of shares outstanding (shares'000)	1,000,000	1,000,000	1,000,000	1,000,000
Basic and diluted (loss) earnings per share (fils)	(0.22) fils	0.42 fils	2.30 fils	0.88 fils

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

6 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 KD'000</i>	<i>Board members and executive officials KD'000</i>	<i>Other related parties KD'000</i>	<i>Total 30 September 2017 KD'000</i>	<i>(Audited)</i>	
					<i>Total 31 December 2016 KD'000</i>	<i>Total 30 September 2016 KD'000</i>
Financing receivable	-	1,075	25	1,100	134	117
Credit cards	-	7	1	8	49	49
Depositors' accounts	548,129	508	300	548,937	394,011	330,904

Warba Bank K.S.C.P.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
INFORMATION (UNAUDITED)

As at 30 September 2017

6 TRANSACTIONS WITH RELATED PARTIES (continued)

	<i>No. of major shareholders</i>	<i>No. of Board members and executive officials</i>	<i>No. of other related parties</i>
Financing receivable	-	7	2
Credit cards	-	6	2
Depositors' accounts	2	23	26

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

	<i>Major shareholders KD'000</i>	<i>Board members and executive officials KD'000</i>	<i>Other related parties KD'000</i>	<i>Total 30 September 2017 KD'000</i>	<i>Total 30 September 2016 KD'000</i>
Placements and financing income	-	57	18	75	2
Finance costs and distributions to depositors	6,585	1	1	6,587	3,530

Compensation to key management personnel:

	<i>Three months ended 30 September</i>		<i>Nine months ended 30 September</i>	
	<i>2017 KD'000</i>	<i>2016 KD'000</i>	<i>2017 KD'000</i>	<i>2016 KD'000</i>
Salaries and other short-term benefits	369	303	1,176	932
Post-employment benefits	32	26	113	74
	<u>401</u>	<u>329</u>	<u>1,289</u>	<u>1,006</u>

7 COMMITMENTS AND CONTINGENT LIABILITIES

	<i>30 September 2017 KD'000</i>	<i>(Audited) 31 December 2016 KD'000</i>	<i>30 September 2016 KD'000</i>
Acceptances and letters of credit	32,479	9,140	10,655
Letter of guarantees	59,709	41,156	36,982
Contingent liabilities	<u>92,188</u>	<u>50,296</u>	<u>47,637</u>
Capital commitments	<u>198</u>	<u>238</u>	<u>193</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

As at 30 September 2017

8 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>
30 September 2017						
Segment operating income	17,472	4,836	1,420	3,072	-	26,800
Segment result	9,440	(1,156)	1,190	2,525	(7,247)	4,752
Segment assets	977,662	245,441	223,271	182,153	41,010	1,669,537
30 September 2016						
Segment operating income	9,393	3,244	671	2,433	-	15,741
Segment result	6,101	(1,397)	541	2,209	(6,577)	877
Segment assets	598,373	156,486	161,439	98,088	18,396	1,032,782

9 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.

Warba Bank K.S.C.P.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
INFORMATION (UNAUDITED)

As at 30 September 2017

9 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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>	
<i>30 September 2017</i>	<i>Date of valuation</i>	<i>Total KD'000</i>	<i>KD'000</i>	<i>KD'000</i>	<i>KD'000</i>
<i>Assets measured at fair value</i>					
Available-for-sale					
Investments					
Quoted Sukuk		109,303	109,303	-	-
- Sovereign Sukuk	30 September 2017	36,126	36,126	-	-
- Corporate Sukuk	30 September 2017	73,177	73,177	-	-
Quoted equity security	30 September 2017	680	680	-	-
Unquoted Sukuk	30 September 2017	2,000	-	-	2,000
Managed portfolio	30 September 2017	4,074	-	-	4,074
		<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>	
<i>31 December 2016</i>	<i>Date of valuation</i>	<i>Total KD'000</i>	<i>KD'000</i>	<i>KD'000</i>	<i>KD'000</i>
<i>Assets measured at fair value</i>					
Available-for-sale					
Investments					
Quoted Sukuk		71,820	71,820	-	-
- Sovereign 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
		<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>	
<i>30 September 2016</i>	<i>Date of valuation</i>	<i>Total KD'000</i>	<i>KD'000</i>	<i>KD'000</i>	<i>KD'000</i>
<i>Assets measured at fair value</i>					
Available-for-sale investments					
Quoted Sukuk		62,382	62,382	-	-
- Sovereign Sukuk	30 September 2016	30,847	30,847	-	-
- Corporate Sukuk	30 September 2016	31,535	31,535	-	-
Quoted equity security	30 September 2016	806	806	-	-

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

As at 30 September 2017

9 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

	<i>At 1 January 2017</i>	<i>Change in fair value</i>	<i>Impairment</i>	<i>Additions</i>	<i>Sale/ redemption</i>	<i>Exchange rate movements</i>	<i>At 30 September 2017</i>
	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>
Available for sale investments							
Unquoted Sukuk	2,000	-	-	-	-	-	2,000
Managed Portfolio	4,281	-	-	-	(207)	-	4,074
	6,281	-	-	-	(207)	-	6,074

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 September 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.

10 PERPETUAL TIER 1 SUKUK

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

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

At the Bank's sole discretion, it may elect not to make any Mudaraba distributions expected and in such event, the Mudaraba profit will not be accumulated and the event is not considered an event of default. The Bank made profit payment during the period ended 30 September 2017.