

WARBA BANK K.S.C.P.

**INTERIM CONDENSED
CONSOLIDATED FINANCIAL
INFORMATION**

31 MARCH 2018 (UNAUDITED)



Building a better
working world

Ernst & Young
Al Aiban, Al Osaimi & 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
Tel : + 965 2228 7000
Fax + 965 2228 7444

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 31 March 2018, and the related interim condensed consolidated statement of income, statement of comprehensive income for the three month period then ended and the related interim condensed consolidated statement of changes in equity and interim condensed consolidated statement of cash flows for the three 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 Association and Memorandum of Incorporation during the three month period ended 31 March 2018 that might have had a material effect on the business of the Bank or on its financial position.

We further report that, during the course of our 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 three month period ended 31 March 2018 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

Warba Bank K.S.C.P.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

As at 31 March 2018

		(Audited) (Restated)	(Restated)
	31 March 2018	31 December 2017	31 March 2017
Notes	KD'000	KD'000	KD'000
ASSETS			
Cash and balances with banks	3	45,513	13,201
Placements with banks and CBK		164,550	246,484
Financing receivables		1,360,689	1,263,322
Financial assets at fair value through profit and loss	9	29,500	-
Financial assets at fair value through other comprehensive income	9	145,607	-
Available-for-sale investments	9	-	165,921
Investment in joint ventures	4	30,886	31,660
Investment properties		24,220	24,611
Other assets		29,005	23,347
Property and equipment		5,468	5,999
TOTAL ASSETS		1,835,438	1,774,545
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks and other financial institutions		684,646	572,864
Depositors' accounts		950,915	1,008,853
Other liabilities		21,046	15,869
TOTAL LIABILITIES		1,656,607	1,597,586
EQUITY			
Share capital		100,000	100,000
Fair value reserve		(582)	(214)
Foreign currency translation reserve		249	251
Retained earnings / (Accumulated losses)		2,801	559
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE BANK		102,468	100,596
Perpetual Tier 1 Sukuk		76,363	76,363
TOTAL EQUITY		178,831	176,959
TOTAL LIABILITIES AND EQUITY		1,835,438	1,774,545


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 31 March 2018

	Note	Three months ended 31 March	
		2018 KD'000	(Restated) 2017 KD'000
Placements and financing income		16,229	10,177
Finance costs and distribution to depositors		(7,891)	(4,447)
Net financing income		8,338	5,730
Net investment income		1,091	1,150
Net fees and commission		812	650
Other income		164	56
Foreign exchange gain		475	162
Operating income		10,880	7,748
Staff costs		(2,648)	(2,594)
General and administrative expenses		(1,078)	(975)
Depreciation		(290)	(375)
Operating expenses		(4,016)	(3,944)
Operating profit before provision for impairment		6,864	3,804
Provision for impairment		(3,807)	(2,397)
Profit before deductions		3,057	1,407
Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)		(28)	-
National Labor Support Tax (NLST)		(80)	(36)
Zakat		(32)	(14)
Net profit for the period		2,917	1,357
Basic and diluted earnings per share	5	0.48 fils	1.36 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 31 March 2018

	<i>Three months ended</i> <i>31 March</i>	
	2018 KD'000	<i>(Restated)</i> 2017 KD'000
Net profit for the period	2,917	1,357
Other comprehensive (loss) income:		
<i>Items that are or may be reclassified subsequently to interim condensed consolidated statement of income</i>		
Change in fair value of debt investments at fair value through other comprehensive income	(2,138)	-
Change in fair value of available-for-sale investments	-	365
Loss on sale of debt investments realized during the period, transferred to interim condensed consolidated statement of income	648	-
Gain on sale of available-for-sale investment realized during the period, transferred to interim condensed consolidated statement of income	-	(11)
Foreign currency translation adjustment	(2)	-
Other comprehensive (loss) income for the period	(1,492)	354
Total comprehensive income for the period	1,425	1,711

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 31 March 2018

	Equity attributable to shareholders of the Bank						Perpetual Tier 1 Sukuk KD'000	Total equity KD'000
	Share capital KD'000	Fair value reserve KD'000	Foreign currency translation reserve KD'000	(Accumulated losses)/ Retained earnings KD'000	Total KD'000's	Total equity KD'000		
Balance at 1 January 2018 (audited)	100,000	(214)	251	(944)	99,093	76,363	175,456	
Effect of change in accounting policy (Note 10)	-	-	-	1,503	1,503	-	1,503	
Balance as at 1 January 2018 (restated)	100,000	(214)	251	559	100,596	76,363	176,959	
Transition adjustment on adoption of IFRS 9 at 1 January 2018 (Note 2)	-	1,122	-	1,767	2,889	-	2,889	
Balance as at 1 January 2018 after IFRS 9 transition adjustment	100,000	908	251	2,326	103,485	76,363	179,848	
Net profit for the period	-	-	-	2,917	2,917	-	2,917	
Other comprehensive loss	-	(1,490)	(2)	-	(1,492)	-	(1,492)	
Total comprehensive (loss) income for the period	-	(1,490)	(2)	2,917	1,425	-	1,425	
Profit paid on Perpetual Tier 1 Sukuk	-	-	-	(2,442)	(2,442)	-	(2,442)	
Balance at 31 March 2018	100,000	(582)	249	2,801	102,468	76,363	178,831	
Balance at 1 January 2017 (audited)	100,000	(430)	-	(4,798)	94,772	-	94,772	
Effect of change in accounting policy (Note 10)	-	-	-	817	817	-	817	
Balance at 1 January 2017 (restated)	100,000	(430)	-	(3,981)	95,589	-	95,589	
Net profit for the period	-	-	-	1,357	1,357	-	1,357	
Other comprehensive income	-	354	-	-	354	-	354	
Total comprehensive income for the period	-	354	-	1,357	1,711	-	1,711	
Issue of Perpetual Tier 1 Sukuk	-	-	-	-	-	76,363	76,363	
Transaction costs on issue of Perpetual Tier 1 Sukuk	-	-	-	(461)	(461)	-	(461)	
Balance at 31 March 2017 (restated)	100,000	(76)	-	(3,085)	96,839	76,363	173,202	

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)

For the period ended 31 March 2018

	Note	Three months ended 31 March	
		2018 KD'000	(Restated) 2017 KD'000
OPERATING ACTIVITIES			
Net profit for the period		2,917	1,357
Adjustments for:			
Realised Loss on sale of financial assets at fair value through OCI		648	-
Realised gain on sale of available-for-sale investments		-	(11)
Dividend income from financial assets at fair value through profit and loss		(359)	(306)
Sukuk income		(1,432)	(590)
Share of results from investments in joint ventures		(442)	-
Net rental income from investment properties		(293)	(205)
Unrealized loss from fair value adjustments of investment properties		825	-
Other investment income		(34)	(38)
Unrealized gain from financial assets at fair value through profit and loss		(4)	-
Provision for end of service benefits		198	104
Depreciation		290	375
Provision for impairment		3,807	2,397
		<u>6,121</u>	<u>3,083</u>
<i>Changes in operating assets and liabilities:</i>			
Placements with banks and CBK		31,135	4,208
Financing receivables		(100,549)	(144,967)
Other assets		(6,297)	(1,598)
Due to banks and other financial institutions		111,520	79,741
Depositors' accounts		(57,938)	29,273
Other liabilities		5,590	1,921
		<u>(10,418)</u>	<u>(28,339)</u>
INVESTING ACTIVITIES			
Purchase of financial assets at fair value through OCI		(85,986)	-
Purchase of available-for-sale investments		-	(19,222)
Proceed from sale of financial assets at fair value through OCI		82,059	-
Proceed from sale and redemption of available-for-sale investments		-	6,632
Purchase of financial assets at fair value through profit and loss		(5,209)	-
Sale and redemption of financial assets at fair value through profit and loss		71	-
Dividend received from joint ventures		1,016	-
Purchase of investment property		-	(9,483)
Purchase of property and equipment		(187)	(155)
Dividend received from financial assets at fair value through profit and loss		359	306
Sukuk income received		2,103	514
Rental income received		422	240
		<u>(5,352)</u>	<u>(21,168)</u>
FINANCING ACTIVITIES			
Perpetual Tier 1 Sukuk issuing costs		-	(461)
Proceeds from issue of Perpetual Tier 1 Sukuk		-	76,363
Profit paid on perpetual Tier 1 Sukuk		(2,442)	-
		<u>(2,442)</u>	<u>75,902</u>
Net cash (used in) generated from financing activities			
		<u>(2,442)</u>	<u>75,902</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS		(18,212)	26,395
Cash and cash equivalents at 1 January		181,086	116,505
CASH AND CASH EQUIVALENTS AT 31 MARCH	3	<u>162,874</u>	<u>142,900</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)

For the period ended 31 March 2018

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 2017 was held on 20 March 2018. No cash dividend or bonus shares for the year ended 31 December 2017 (31 December 2016: 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 three month period ended 31 March 2018 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 11 April 2018.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

2.1 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 consolidated financial statements for the year ended 31 December 2017 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 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 Group's annual consolidated financial statements as at 31 December 2017.

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 three month period ended 31 March 2018 are not necessarily indicative of the results that may be expected for the year ending 31 December 2018.

On 1 January 2018, the Group elected to change its method of valuing its investment in properties to the fair value method as permitted by *IAS 40 Investment Properties*, whereas in all prior years and periods investment properties were valued using the cost method. The management believes that fair value method of measurement of investment properties is preferable because this provides more reliable and relevant information for the users of the interim condensed consolidated financial information and this conforms to the widely accepted policy of valuing investment properties. Comparative information of prior years and periods have been adjusted to apply the new accounting method retrospectively as detailed in Note 10.

2.2 New standards and amendments adopted by the Group

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 consolidated financial statements for the year ended 31 December 2017, except for the change in accounting policy detailed above and adoption of *IFRS 15 – Revenue from Contracts with Customers* and *IFRS 9 – Financial Instruments* from 1 January 2018, excluding the financing receivables carried at amortised cost.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
INFORMATION (UNAUDITED)

For the period ended 31 March 2018

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 New standards and amendments adopted by the Group (continued)

IFRS 15 – Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and is effective for annual periods commencing on or after 1 January 2018. IFRS 15 outlines a single comprehensive model of accounting for revenue arising from contracts with customers and supersedes current revenue guidance, which is found currently across several Standards and Interpretations within IFRS. It established a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group's adoption of IFRS 15 had no impact on this interim condensed consolidated financial information of the Group.

IFRS 9 – Financial Instruments

The Group has adopted IFRS 9 - Financial Instruments issued in July 2014 with a date of initial application of 1 January 2018, with the exception of requirements of the expected credit losses on financing. The requirements of IFRS 9 represent a significant change from IAS 39 Financial Instruments: Recognition and Measurement. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities. The key changes to the Group's accounting policies resulting from its adoption of IFRS 9 are summarized below.

Classification of financial assets

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

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

- (1) Financial assets carried at amortised cost;
- (2) Financial assets carried at fair value through other comprehensive income (FVOCI); and
- (3) Financial assets carried at fair value through profit or loss (FVTPL)

(1) Financial assets carried at amortised cost:

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

- (a) The asset is held within a "business model" whose objective is to hold assets to collect contractual cash flows;
- (b) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit (SPPI) on the principal amount outstanding.

The details of these conditions are outlined below. Further, financial assets carried at amortised cost are subsequently measured at amortised cost using the effective profit method. The amortised cost is reduced by impairment losses. Financing income, foreign exchange gains and losses and impairment are recognised in the interim condensed consolidated statement of income. Any gain or loss on derecognition is recognised in the interim condensed consolidated statement of income.

Cash and balance with banks, placements with banks and CBK, financing receivables and other assets are classified as financial assets carried at amortised cost.

(a) Business model assessment

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
INFORMATION (UNAUDITED)

For the period ended 31 March 2018

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 New standards and amendments adopted by the Group (continued)

IFRS 9 – Financial Instruments (continued)

(a) Business model assessment (continued)

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed; and
- 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 Group'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 Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

(b) SPPI test

As a second step of its classification process the Group assesses the contractual terms of financial asset to identify whether they meet the SPPI 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 SPPI assessment, the Group applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the profit rate is set.

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

(2) Financial assets carried at fair value through other comprehensive income (FVOCI):

(i) Debt instruments at FVOCI

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

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

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Financing income and foreign exchange gains and losses and impairment losses are recognised in interim condensed consolidated statement of income. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from equity to the interim condensed consolidated statement of income.

The management of the Group classifies certain quoted and unquoted Sukuks and includes them under financial assets at fair value through other comprehensive income in the interim condensed consolidated statement of financial position.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 New standards and amendments adopted by the Group (continued)

IFRS 9 – Financial Instruments (continued)

(ii) Equity instruments at FVOCI

Upon initial recognition, the Group may elect to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. Such classification is determined on an instrument-by- instrument basis.

Equity investments at FVOCI are subsequently measured at fair value. Changes in fair values including foreign exchange component are recognised in interim condensed consolidated statement of other comprehensive income and presented in the cumulative changes in fair values as part of equity. Cumulative gains and losses previously recognised in interim condensed consolidated statement of other comprehensive income are transferred to retained earnings on derecognition and are not recognised in the interim condensed consolidated statement of income. Dividend income on equity investments at FVOCI are recognised in the interim condensed consolidated statement of income unless they clearly represent a recovery of part of the cost of the investment in which case they are recognised in interim condensed consolidated statement of other comprehensive income. Equity investments at FVOCI are not subject to impairment assessment.

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

The Group recorded and measured financial assets at fair value though profit or loss in the interim condensed consolidated statement of financial position at fair value. In addition, on initial recognition, the Group may irrevocably designate a financial asset at FVPL if it doesn't meet the requirements to be measured at amortised cost or at FVOCI and by doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Changes in fair values, financing income and dividends are recorded in interim condensed consolidated statement of income according to the terms of the contract, or when the right to payment has been established.

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

Reclassification of financial assets

The Group does not reclassify its financial assets subsequent to their initial recognition apart in the exceptional circumstances in which the Group acquires, disposes of, or terminates a business line.

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The management has applied the new impairment model to financial assets excluding financing receivables carried at amortised cost.

Under IFRS 9, credit losses are recognised earlier than under IAS 39. Key changes in the Group's accounting policy for impairment of financial assets are listed below:

The Group applies three-stage approach to measuring expected credit losses (ECL). Assets migrate through the following three stages based on the change in credit quality since initial recognition.

Stage 1: 12 months ECL

For exposures where there has not been a significant increase in credit risk since initial recognition, the portion of the lifetime ECL associated with the probability of default events occurring within next 12 months is recognised.

Stage 2: Lifetime ECL – not credit impaired

For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, a lifetime ECL is recognised.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
INFORMATION (UNAUDITED)

For the period ended 31 March 2018

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 New standards and amendments adopted by the Group (continued)

IFRS 9 – Financial Instruments (continued)

Impairment of financial assets (continued)

Stage 3: Lifetime ECL – credit impaired

Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. As this uses the same criteria as under IAS 39, the Group's methodology for specific provisions remains largely unchanged.

Lifetime ECL are recorded on financial assets that are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or past due event;
- The restructuring of a finance receivables by the Group on terms that the Group would not consider otherwise;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- The disappearance of an active market for a security because of financial difficulties.

In making an assessment of whether an investment in sovereign sukuks, other than that of the home country sovereign (i.e. Kuwait), is credit-impaired, the Group considers the following factors.

- The market's assessment of creditworthiness as reflected in the Sukuk yields; and/or
- The rating agencies' assessments of creditworthiness.

Objective evidence that a specific financial asset or a group of financial assets classified as financing receivables is impaired includes whether any payment of principal or financing income is overdue by more than 90 days or there are any known difficulties in the cash flows including the sustainability of the counterparty's business plan, credit rating downgrades, breach of original terms of the contract, its ability to improve performance once a financial difficulty has arisen, deterioration in the value of collateral etc. The Group assess whether objective evidence of impairment exists on an individual basis for each individually significant asset and collectively for others not deemed individually significant except for financial assets classified as financing receivables where minimum general provision as per CBK's instructions is followed.

Impairment of financing receivables

The Group recognises provision charge for financing receivables in accordance with the existing accounting policy for impairment of financial assets carried at amortised cost as disclosed in the annual consolidated financial statements for the year ended 31 December 2017. This complies in all material respects with the specific and general provision requirements of the Central Bank of Kuwait.

Hedge accounting

The general hedge accounting requirements of IFRS 9 retain the three types of hedge accounting mechanisms in IAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify as hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is no longer required.

As at 31 March 2018, the Group does not have any hedge relationships. Hence, the hedging requirements of IFRS 9 will not have a significant impact on Group's interim condensed consolidated financial information.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

For the period ended 31 March 2018

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 New standards and amendments adopted by the Group (continued)

IFRS 9 – Financial Instruments (continued)

Transition

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

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

Impact of adopting IFRS 9

The impact of change in accounting policy as at 1st January 2018 has been to increase the fair value reserve by KD 1,122 thousand and to increase retained earnings by KD 1,767 thousand as follows:

	<i>Fair value reserve KD 000's</i>	<i>Retained earnings KD 000's</i>
Closing balance under IAS 39 as at 31 December 2017 (<i>restated</i>)	(214)	559
<i>Impact on reclassification and re-measurements:</i>		
Investment securities (funds and equity) from available-for-sale to FVTPL	135	2,541
Investment securities (equity) from available-for-sale to FVOCI	535	-
Total reclassification and re-measurements impact on opening balance	670	2,541
<i>Impact on recognition of ECL on financial assets other than financing receivables to customers and financial institution:</i>		
ECL under IFRS 9 for investment securities (Sukuks) from AFS to FVOCI	452	(452)
ECL under IFRS 9 for financial assets at amortised cost	-	(322)
Total ECL impact on opening balance	452	(774)
Total transition adjustment on adoption of IFRS 9 as at 1 January 2018	1,122	1,767
Opening balance under IFRS 9 as at 1 January 2018	908	2,326

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

For the period ended 31 March 2018

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**2.2 New standards and amendments adopted by the Group (continued)****IFRS 9 – Financial Instruments (continued)***Classification of financial assets on the date of initial application of IFRS 9*

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

	<i>Original classification under IAS 39</i>	<i>New classification under IFRS 9</i>	<i>Original carrying amount under IAS 39 KD 000's</i>	<i>Re-measurement ECL KD 000's</i>	<i>Re-measurement others KD 000's</i>	<i>New carrying amount under IFRS 9 KD 000's</i>
Financial assets						
Cash and balances with banks	Loans and receivable	Amortised cost	13,201	-	-	13,201
Placements with banks and CBK	Loans and receivable	Amortised cost	246,484	(322)	-	246,162
Investment securities – Sukuk	AFS	FVOCI	140,140	-	-	140,140
Investment securities – funds and managed portfolios	AFS	FVTPL	20,927	-	2,676	23,603
Investment securities – Unquoted equity	AFS	FVOCI	4,098	-	535	4,633
Investment securities – Quoted equity	AFS	FVTPL	756	-	-	756
Other assets	Loans and receivable	Amortised cost	23,347	-	-	23,347
Total financial assets			448,953	(322)	3,211	451,842

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

The adoption of IFRS 9 did not result in any change in the measurement of financing receivables. Financing receivables are carried at amortised cost using effective yield method less any amounts written off and provision for impairment. The provision for impairment is based on the provisioning requirements of the Central Bank of Kuwait.

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

	<i>Impairment allowance under IAS 39 at 31 December 2017 KD 000's</i>	<i>Re-measurement KD 000's</i>	<i>Expected credit losses under IFRS 9 at 1 January 2018 KD 000's</i>
Investment securities (Sukuks) from AFS to FVOCI	-	452	452
Financial assets at amortised cost	-	322	322
Total expected credit losses	-	774	774

Warba Bank K.S.C.P.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

For the period ended 31 March 2018

3 CASH AND CASH EQUIVALENTS

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

	<i>31 March</i> <i>2018</i> <i>KD'000</i>	<i>(Audited)</i> <i>31 December</i> <i>2017</i> <i>KD'000</i>	<i>31 March</i> <i>2017</i> <i>KD'000</i>
Cash	4,449	1,700	2,358
Current account with the CBK	32,564	6,206	208
Current account with commercial banks	8,500	5,295	3,146
Cash and balances with banks	45,513	13,201	5,712
Placements with the CBK whose original maturity is within 3 months	41,111	17,053	35,049
Placements with banks whose original maturity is within 3 months	76,250	150,832	102,139
	162,874	181,086	142,900

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

4 INVESTMENT IN JOINT VENTURES

In 2017, the Group has invested in joint ventures and exercises "joint control" over those investees, whereby all decision related to these joint ventures activities require "unanimous consent" from all parties of the joint ventures. 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.

5 BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share are calculated by dividing net profit for the period of the Group, 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</i> <i>31 March</i>	
	<i>2018</i>	<i>(Restated)</i> <i>2017</i>
Net profit for the period (KD'000)	2,917	1,357
Less: profit payment on Perpetual Tier 1 Sukuk	(2,442)	-
	475	1,357
Weighted average number of shares outstanding (shares'000)	1,000,000	1,000,000
Basic and diluted earnings per share (fils)	0.48	1.36

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)

For the period ended 31 March 2018

6 TRANSACTIONS WITH RELATED PARTIES

These are transactions with certain related parties (major shareholders, directors and executive officers of the Group, 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 Group 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 31 March 2018</i>	<i>(Audited) Total 31 December 2017</i>	<i>Total 31 March 2017</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	-	1,801	75	1,876	1,088	582
Credit cards	-	11	1	12	8	9
Depositors' accounts	720,234	1,103	331	721,668	677,075	441,678

	<i>No. of major shareholders</i>	<i>No. of Board members and executive officials</i>	<i>No. of other related parties</i>
Financing receivable	-	12	4
Credit cards	-	7	2
Depositors' accounts	2	31	30

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 31 March 2018</i>	<i>Total 31 March 2017</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	-	68	9	77	13
Finance costs and distributions to depositors	3,496	-	-	3,496	1,857

Compensation to key management personnel:

	<i>Three months ended 31 March</i>	
	<i>2018</i>	<i>2017</i>
	<i>KD'000</i>	<i>KD'000</i>
Salaries and other short-term benefits	419	386
Post-employment benefits	35	40
	<u>454</u>	<u>426</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

For the period ended 31 March 2018

7 COMMITMENTS AND CONTINGENT LIABILITIES

	31 March 2018 KD'000	<i>(Audited)</i> 31 December 2017 KD'000	31 March 2017 KD'000
Acceptances and letters of credit	25,955	39,788	13,722
Letter of guarantees	84,405	62,865	53,996
Contingent liabilities	<u>110,360</u>	<u>102,653</u>	<u>67,718</u>
Capital commitments	<u>169</u>	<u>232</u>	<u>353</u>

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>
31 March 2018						
Segment operating income	7,328	2,085	1,072	395	-	10,880
Segment result	4,087	256	1,008	194	(2,628)	2,917
Segment assets	1,092,046	268,643	164,550	230,213	79,986	1,835,438
Segment liabilities	160,464	315,034	1,160,063	-	21,046	1,656,607
	<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>
31 March 2017 (Restated)						
Segment operating income	4,776	1,438	410	1,124	-	7,748
Segment result	2,574	(403)	366	980	(2,160)	1,357
Segment assets	771,998	198,532	188,895	137,518	19,244	1,316,187
Segment liabilities	135,702	212,384	785,557	-	9,342	1,142,985

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

For the period ended 31 March 2018

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 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 instruments recorded at fair value by level of the fair value hierarchy:

	<i>Date of valuation</i>	<i>Total KD'000</i>	<i>Fair value measurement</i>		
			<i>Quoted prices in active markets (Level 1) KD'000</i>	<i>Significant observable inputs (Level 2) KD'000</i>	<i>Significant unobservable inputs (Level 3) KD'000</i>
31 March 2018					
<i>Assets measured at fair value</i>					
<i>Financial assets at FVTPL</i>					
Quoted equity security	31 March 2018	5,267	5,267	-	-
Funds	31 March 2018	16,893	-	-	16,893
Managed portfolio	31 March 2018	7,340	-	-	7,340
<i>Financial assets at FVOCI</i>					
Quoted Sukuk					
- Sovereign Sukuk	31 March 2018	35,721	35,721	-	-
- Corporate Sukuk	31 March 2018	103,253	103,253	-	-
Unquoted Sukuk	31 March 2018	2,000	-	-	2,000
Unquoted equity security	31 March 2018	4,633	-	-	4,633
31 December 2017					
<i>Assets measured at fair value</i>					
<i>Available-for-sale investments</i>					
Quoted Sukuk					
- Sovereign Sukuk	31 December 2017	41,276	41,276	-	-
- Corporate Sukuk	31 December 2017	96,864	96,864	-	-
Quoted equity security	31 December 2017	756	756	-	-
Unquoted Sukuk	31 December 2017	2,000	-	-	2,000
Managed portfolio	31 December 2017	4,004	-	-	4,004

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

For the period ended 31 March 2018

9 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

31 March 2017	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	31 March 2017	31,211	31,211	-	-
- Corporate Sukuk	31 March 2017	53,497	53,497	-	-
Quoted equity security	31 March 2017	786	786	-	-
Unquoted Sukuk	31 March 2017	2,000	-	-	2,000
Managed Portfolio	31 March 2017	4,212	-	-	4,212

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

	At 1 January 2018 KD 000's	Change in fair value KD 000's	Additions KD 000's	Sale/ redemption KD 000's	Exchange rate movements KD 000's	At 31 March 2018 KD 000's
<i>Financial assets at FVTPL</i>						
Funds	16,308	-	656	(71)	-	16,893
Managed Portfolio	7,295	-	45	-	-	7,340
	<u>23,603</u>	<u>-</u>	<u>701</u>	<u>(71)</u>	<u>-</u>	<u>24,233</u>
<i>Financial assets at FVOCI</i>						
Unquoted Sukuk	2,000	-	-	-	-	2,000
Unquoted equity security	4,633	-	-	-	-	4,633
	<u>6,633</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,633</u>
	At 1 January 2017 KD 000's	Change in fair value KD 000's	Additions KD 000's	Sale/ redemption KD 000's	Exchange rate movements KD 000's	At 31 March 2017 KD 000's
<i>Available for sale investments</i>						
Unquoted Sukuk	2,000	-	-	-	-	2,000
Managed Portfolio	4,281	-	-	(69)	-	4,212
	<u>6,281</u>	<u>-</u>	<u>-</u>	<u>(69)</u>	<u>-</u>	<u>6,212</u>

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.

Warba Bank K.S.C.P.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
INFORMATION (UNAUDITED)

For the period ended 31 March 2018

10 COMPARATIVE INFORMATION

The comparative information for the year ended 31 December 2017 and period ended 31 March 2017 has been restated to reflect the measurement of investment properties at fair value from cost in accordance with "IAS 40 – Investment Property".

Following adjustments have been made to comparative financial information:

<i>Statement of financial position</i>	<i>As previously reported KD 000's</i>	<i>Restated KD 000's</i>	<i>Effect of change KD 000's</i>
As at 31 December 2017			
<i>Assets</i>			
Investments in joint ventures	31,102	31,660	558
Investment properties	23,666	24,611	945
<i>Equity</i>			
Accumulated losses	(944)	559	1,503
As at 31 March 2017			
<i>Assets</i>			
Investments in joint ventures	-	-	-
Investment properties	24,245	25,115	870
<i>Equity</i>			
Accumulated losses	(3,955)	(3,085)	870
As at 1 January 2017			
<i>Assets</i>			
Investments in joint ventures	-	-	-
Investment properties	14,815	15,632	817
<i>Equity</i>			
Accumulated losses	(4,798)	(3,981)	817
Statement of income			
<i>Period ended 31 March 2017</i>			
Investment income	1,097	1,150	53