

WARBA BANK K.S.C.P.

**INTERIM CONDENSED
CONSOLIDATED FINANCIAL
INFORMATION (UNAUDITED)**

30 SEPTEMBER 2018



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 2018, and the related interim condensed consolidated statement of profit or loss, 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 preparation 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 preparation 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, its executive regulations, as amended, or of the Bank's Articles of Association and Memorandum of Incorporation during the nine-month period ended 30 September 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 nine-month period ended 30 September 2018 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)


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 30 September 2018

		30 September 2018	(Audited) 31 December 2017	30 September 2017
	Notes	KD'000	KD'000 (Restated)	KD'000 (Restated)
ASSETS				
Cash and balances with banks	3	55,306	13,201	17,847
Placements with banks and CBK		202,587	246,484	223,271
Financing receivables		1,452,694	1,263,322	1,223,105
Financial assets at fair value through profit and loss	9	30,538	-	-
Financial assets at fair value through other comprehensive income	9	147,811	-	-
Available-for-sale investments	9	-	165,921	137,207
Investment in joint ventures	4	31,885	31,660	20,962
Investment properties		23,402	24,611	24,984
Other assets		22,266	23,347	17,541
Property and equipment		5,285	5,999	5,622
TOTAL ASSETS		1,971,774	1,774,545	1,670,539
LIABILITIES AND EQUITY				
LIABILITIES				
Due to banks and other financial institutions		807,112	572,864	520,237
Depositors' accounts		951,337	1,006,614	958,096
Other liabilities		32,223	18,108	18,286
TOTAL LIABILITIES		1,790,672	1,597,586	1,496,619
EQUITY				
Share capital	12	100,000	100,000	100,000
Fair value reserve		(1,588)	(214)	(485)
Foreign currency translation reserve		226	251	-
Retained earnings / (accumulated losses)		6,101	559	(1,958)
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE BANK		104,739	100,596	97,557
Perpetual Tier 1 Sukuk		76,363	76,363	76,363
TOTAL EQUITY		181,102	176,959	173,920
TOTAL LIABILITIES AND EQUITY		1,971,774	1,774,545	1,670,539


Abdulwahab A. Al Houti
Chairman


Shaheen H. Al Ghanem
Chief Executive Officer

The accompanying notes 1 to 12 form an integral part of this interim condensed consolidated financial information.



Warba Bank K.S.C.P.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
(UNAUDITED)

For the period ended 30 September 2018

	Note	Three months ended 30 September		Nine months ended 30 September	
		2018	2017	2018	2017
		KD'000	KD'000 (Restated)	KD'000	KD'000 (Restated)
Placements and financing income		19,054	13,990	52,486	36,519
Finance costs and distribution to depositors		(10,361)	(6,369)	(27,597)	(15,865)
Net financing income		8,693	7,621	24,889	20,654
Net investment income		3,046	1,609	7,247	4,017
Net fee and commission income		611	559	2,292	1,707
Other (loss) income		(72)	90	139	190
Net foreign exchange (loss) gain		(213)	169	335	417
Operating income		12,065	10,048	34,902	26,985
Staff costs		(3,016)	(3,182)	(8,521)	(8,713)
General and administrative expenses		(1,201)	(1,317)	(3,657)	(3,409)
Depreciation		(286)	(281)	(867)	(931)
Operating expenses		(4,503)	(4,780)	(13,045)	(13,053)
Operating profit before provision for impairment		7,562	5,268	21,857	13,932
Provision for impairment		(3,913)	(2,879)	(12,764)	(8,800)
Profit before tax		3,649	2,389	9,093	5,132
Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)		(33)	-	(82)	-
National Labour Support Tax (NLST)		(94)	(70)	(235)	(140)
Zakat		(38)	(27)	(94)	(55)
Net profit for the period		3,484	2,292	8,682	4,937
Basic and diluted earnings (loss) per share	5	1.02 fils	(0.16) fils	3.78 fils	2.49 fils

The accompanying notes 1 to 12 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 2018

	<i>Three months ended</i>		<i>Nine months ended</i>	
	<i>30 September</i>		<i>30 September</i>	
	<i>2018</i>	<i>2017</i>	<i>2018</i>	<i>2017</i>
	<i>KD'000</i>	<i>KD'000</i>	<i>KD'000</i>	<i>KD'000</i>
		<i>(Restated)</i>		<i>(Restated)</i>
Net profit for the period	3,484	2,292	8,682	4,937
Other comprehensive income (loss):				
<i>Other comprehensive income (loss) reclassified to profit or loss in subsequent periods:</i>				
Available-for-sale investments (IAS 39)				
- Change in fair value	-	(423)	-	127
- Gain on sale transferred to profit or loss	-	(109)	-	(182)
Net gain on available-for-sale investments	-	(532)	-	(55)
Change in fair value of debt investments at fair value through other comprehensive income	618	-	(4,060)	-
Loss on sale of debt investments realised during the period, transferred to profit or loss	-	-	652	-
Net gain on cash flow hedges	410	-	912	-
Exchange differences on translation of foreign operations	(57)	-	(25)	-
Other comprehensive income (loss) for the period	971	(532)	(2,521)	(55)
Total comprehensive income for the period	4,455	1,760	6,161	4,882

The accompanying notes 1 to 12 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 2018

	<i>Equity attributable to shareholders of the Bank</i>				<i>Equity attributable to shareholders of the Bank</i> KD 000's	<i>Perpetual Tier 1 Sukuk</i> KD'000	<i>Total equity</i> KD'000
	<i>Share capital</i> KD'000	<i>Fair value reserve</i> KD'000	<i>Foreign currency translation reserve</i> KD'000	<i>(Accumulated losses)/ retained earnings</i> 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 11)	-	-	-	1,503	1,503	-	1,503
Balance as at 1 January 2018 (<i>restated</i>)	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	-	-	-	8,682	8,682	-	8,682
Other comprehensive loss	-	(2,496)	(25)	-	(2,521)	-	(2,521)
Total comprehensive (loss) income for the period	-	(2,496)	(25)	8,682	6,161	-	6,161
Profit paid on Perpetual Tier 1 Sukuk	-	-	-	(4,907)	(4,907)	-	(4,907)
Balance at 30 September 2018	100,000	(1,588)	226	6,101	104,739	76,363	181,102
Balance at 1 January 2017 (audited)	100,000	(430)	-	(4,798)	94,772	-	94,772
Effect of change in accounting policy (Note 11)	-	-	-	817	817	-	817
Balance as at 1 January 2017 (<i>restated</i>)	100,000	(430)	-	(3,981)	95,589	-	95,589
Net profit for the period (<i>restated</i>)	-	-	-	4,937	4,937	-	4,937
Other comprehensive loss (<i>restated</i>)	-	(55)	-	-	(55)	-	(55)
Total comprehensive (loss) income for the period (<i>restated</i>)	-	(55)	-	4,937	4,882	-	4,882
Issue of Perpetual Tier 1 Sukuk	-	-	-	-	-	76,363	76,363
Transaction costs on issue of Perpetual Tier 1 Sukuk	-	-	-	(463)	(463)	-	(463)
Profit paid on Perpetual Tier 1 Sukuk	-	-	-	(2,451)	(2,451)	-	(2,451)
Balance at 30 September 2017 (<i>restated</i>)	100,000	(485)	-	(1,958)	97,557	76,363	173,920

The accompanying notes 1 to 12 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 September 2018

	<i>Nine months ended</i>	
	<i>30 September</i>	
Note	<i>2018</i>	<i>2017</i>
	<i>KD'000</i>	<i>KD'000</i>
		<i>(Restated)</i>
OPERATING ACTIVITIES		
Net profit for the period	8,682	4,937
Adjustments for:		
Realised loss on sale of financial assets at fair value through other comprehensive income	652	-
Realised gain on sale of available-for-sale investments	-	(182)
Dividend income	(1,086)	(903)
Sukuk income	(4,440)	(2,364)
Share of results from investments in joint ventures	(1,147)	-
Net rental income from investment properties	(906)	(568)
Unrealized loss from fair value adjustments of investment properties	938	-
Other investment income	(101)	-
Unrealized gain from financial assets at fair value through profit and loss	(1,157)	-
Provision for end of service benefits	482	741
Depreciation	867	931
Provision for impairment	12,764	8,800
	<u>15,548</u>	<u>11,392</u>
<i>Changes in operating assets and liabilities:</i>		
Placements with banks and CBK	16,439	(16,457)
Financing receivables	(197,824)	(403,796)
Other assets	2,694	(10,483)
Due to banks and other financial institutions	234,127	246,106
Depositors' accounts	(55,277)	212,176
Other liabilities	9,271	6,071
	<u>24,978</u>	<u>45,009</u>
Net cash flows generated from operating activities		
INVESTING ACTIVITIES		
Purchase of financial assets at fair value through other comprehensive income	(122,253)	-
Proceeds from sale of financial assets at fair value through other comprehensive income	115,392	-
Purchase of financial assets at fair value through profit and loss	(5,165)	-
Proceeds from sale of financial assets at fair value through profit and loss	215	-
Purchase of available-for-sale investments	-	(111,646)
Proceeds from sale and redemption of available-for-sale investments	-	73,073
Purchase of investment in joint ventures	-	(20,962)
Dividends received from joint ventures	1,057	-
Purchase of investment property	-	(9,352)
Purchase of property and equipment	(618)	(910)
Dividend income received from financial assets	1,012	903
Sukuk income received	3,834	1,868
Rental income received	1,161	809
	<u>(5,365)</u>	<u>(66,217)</u>
Net cash flows used in investing activities		
FINANCING ACTIVITIES		
Perpetual Tier 1 Sukuk issuing costs	-	(463)
Proceeds from issue of Perpetual Tier 1 Sukuk	-	76,363
Profit paid on perpetual Tier 1 Sukuk	(4,907)	(2,451)
	<u>(4,907)</u>	<u>73,449</u>
Net cash flows (used in) from financing activities		
NET INCREASE IN CASH AND CASH EQUIVALENTS	14,706	52,241
Cash and cash equivalents at 1 January	181,086	116,505
CASH AND CASH EQUIVALENTS AT 30 SEPTEMBER	3	168,746

The accompanying notes 1 to 12 form an integral part of this interim condensed consolidated financial information.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
INFORMATION (UNAUDITED)

As at and for the period ended 30 September 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 virtue of Amiri Decree No. 289/2009. The Bank is registered as an Islamic banking institution in accordance with the rules and regulations of the Central Bank of Kuwait (the "CBK") on 7 April 2010 and its shares are publicly traded on the Boursa Kuwait. The Bank's registered office is at Sanabil Tower, 26th – 28th floor, Abdullah Al Ahmed Street, P.O. Box 1220, Safat 13013, State of Kuwait.

The Bank is primarily involved in investment, corporate and retail banking 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 held on 20 March 2018 approved the financial statements for the year ended 31 December 2017. No cash dividend or bonus shares were declared for the year ended 31 December 2017 (31 December 2016: Nil).

This interim condensed consolidated financial information as at and for the nine-month period ended 30 September 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 in accordance with a resolution the Board of Directors on 10 October 2018.

2 BASIS OF PREPARATION AND CHANGES TO THE GROUP'S 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 nine months period ended 30 September 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 11.

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

The accounting policies adopted 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 financing receivables carried at amortised cost.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
INFORMATION (UNAUDITED)

As at and for the period ended 30 September 2018

**2 BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES
(continued)**

2.2 New standards, interpretations, 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 (FVTPL), 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 FVTPL:

- (a) The asset is held within a "business model" whose objective is to hold assets to collect contractual cash flows; and
- (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 rate method. The amortised cost is reduced by expected credit losses. Financing income, foreign exchange gains and losses and expected credit losses are recognised in the interim condensed consolidated statement of profit or loss. Any gain or loss on derecognition is recognised in the interim condensed consolidated statement of profit or loss.

Cash and balances 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)

As at and for the period ended 30 September 2018

**2 BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES
(continued)**

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

IFRS 9 – Financial Instruments (continued)

Classification of financial assets (continued)

(1) Financial assets carried at amortised cost (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 the financial asset to identify whether it meets 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 FVTPL.

(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; and
- 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 expected credit losses are recognised in interim condensed consolidated statement of profit or loss. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from equity to the interim condensed consolidated statement of profit or loss.

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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

As at and for the period ended 30 September 2018

2 BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (continued)

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

IFRS 9 – Financial Instruments (continued)

Classification of financial assets (continued)

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

(ii) Equity instruments at FVOCI

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

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 profit or loss. Dividend income on equity investments at FVOCI are recognised in the interim condensed consolidated statement of profit or loss 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 records and measures financial assets at fair value through 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 FVTPL, 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 the interim condensed consolidated statement of profit or loss according to the terms of the contract, or when the right to payment has been established.

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

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. 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 is set out 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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
INFORMATION (UNAUDITED)

As at and for the period ended 30 September 2018

**2 BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES
(continued)**

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

IFRS 9 – Financial Instruments (continued)

Impairment of financial assets (continued)

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.

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 to determine credit impaired under IAS 39, the Group's methodology for specific provisions remains largely unchanged.

Lifetime ECL is 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
- 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 (cash and non-cash) 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 30 September 2018, the hedging requirements of IFRS 9 does not have a significant impact on Group's interim condensed consolidated financial information.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

As at and for the period ended 30 September 2018

2 BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (continued)**2.2 New standards, interpretations, 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 2018 under IFRS 9.
- b) The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:
- The determination of the business model within which a financial asset is held;
 - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL;
 - The designation of certain investments in equity instruments not held for trading as at FVOCI; and
 - If a debt 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	<u>670</u>	<u>2,541</u>
<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	<u>452</u>	<u>(774)</u>
Total transition adjustment on adoption of IFRS 9 as at 1 January 2018	<u>1,122</u>	<u>1,767</u>
Opening balance under IFRS 9 as at 1 January 2018	<u>908</u>	<u>2,326</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

As at and for the period ended 30 September 2018

2 BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (continued)**2.2 New standards, interpretations, 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</i> KD 000's	<i>Re-measurement ECL</i> KD 000's	<i>Re-measurement others</i> KD 000's	<i>New carrying amount under IFRS 9</i> KD 000's
Financial assets						
Cash and balances with banks	Loans and receivables	Amortised cost	13,201	-	-	13,201
Placements with banks and CBK	Loans and receivables	Amortised cost	246,484	(322)	-	246,162
Investment securities – Sukuk	AFS	FVOCI	140,140	-	-	140,140
Investment securities – funds and equity	AFS	FVTPL	20,927	-	2,676	23,603
Investment securities – Unquoted equity	AFS	FVOCI	4,098	-	535	4,633
Investment securities – Quoted equity	AFS	FVTPL	756	-	-	756
Other assets	Loans and receivables	Amortised cost	23,347	-	-	23,347
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 profit rate 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</i> KD 000's	<i>Re-measurement</i> KD 000's	<i>Expected credit losses under IFRS 9 at 1 January 2018</i> KD 000's
Investment securities (Sukuks) from AFS to FVOCI	-	452	452
Financial assets at amortised cost	-	322	322
Total expected credit losses	-	774	774

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
INFORMATION (UNAUDITED)

As at and for the period ended 30 September 2018

3 CASH AND CASH EQUIVALENTS

For the purpose of the interim condensed consolidated statement of cash flows, cash and cash equivalents are comprised of the following:

	<i>30 September</i> <i>2018</i> <i>KD'000</i>	<i>(Audited)</i> <i>31 December</i> <i>2017</i> <i>KD'000</i>	<i>30 September</i> <i>2017</i> <i>KD'000</i>
Cash	3,139	1,700	4,827
Current accounts with the CBK	40,159	6,206	8,710
Current accounts with commercial banks	12,008	5,295	4,310
Total cash and balances with banks	55,306	13,201	17,847
Placements with the CBK with an original maturity of less than 3 months	97,125	17,053	22,054
Placements with banks with an original maturity of less than 3 months	43,361	150,832	128,845
Total cash and cash equivalents	195,792	181,086	168,746

Placements with banks represent short-term Murabaha and Wakala investments with financial institutions with appropriate credit ratings.

4 INVESTMENT IN JOINT VENTURES

In 2017, the Group 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/asset 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 (LOSS) PER SHARE

Basic and diluted earnings (loss) 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>30 September</i>		<i>Nine months ended</i> <i>30 September</i>	
	<i>2018</i>	<i>2017</i> <i>(Restated)</i>	<i>2018</i>	<i>2017</i> <i>(Restated)</i>
Net profit for the period (KD'000)	3,484	2,292	8,682	4,937
Less: Profit paid on Perpetual Tier 1 Sukuk	(2,465)	(2,451)	(4,907)	(2,451)
	<u>1,019</u>	<u>(159)</u>	<u>3,775</u>	<u>2,486</u>
Weighted average number of shares outstanding (shares'000)	<u>1,000,000</u>	<u>1,000,000</u>	<u>1,000,000</u>	<u>1,000,000</u>
Basic and diluted earnings (loss) per share	<u>1.02 fils</u>	<u>(0.16) fils</u>	<u>3.78 fils</u>	<u>2.49 fils</u>

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

As at and for the period ended 30 September 2018

6 RELATED PARTY DISCLOSURES

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 officers</i>	<i>Other related parties</i>	<i>Total 30 September 2018</i>	<i>(Audited) Total 31 December 2017</i>	<i>Total 30 September 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 receivables	-	1,465	-	1,465	1,088	1,100
Credit cards	-	7	-	7	8	8
Depositors' accounts	756,318	159	103	756,580	677,075	548,937

	<i>No. of major shareholders</i>	<i>No. of Board members and executive officers</i>	<i>No. of other related parties</i>
Financing receivables	-	6	-
Credit cards	-	6	1
Depositors' accounts	2	17	33

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

	<i>Major shareholders</i>	<i>Board members and executive officers</i>	<i>Other related parties</i>	<i>Total 30 September 2018</i>	<i>Total 30 September 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	-	56	9	65	75
Finance costs and distributions to depositors	12,422	26	1	12,449	6,587

Compensation to key management personnel:

	<i>Three months ended 30 September</i>		<i>Nine months ended 30 September</i>	
	<i>2018</i>	<i>2017</i>	<i>2018</i>	<i>2017</i>
	<i>KD'000</i>	<i>KD'000</i>	<i>KD'000</i>	<i>KD'000</i>
Salaries and other short-term benefits	401	369	1,222	1,176
Post-employment benefits	35	32	105	113
	<u>436</u>	<u>401</u>	<u>1,327</u>	<u>1,289</u>

7 COMMITMENTS AND CONTINGENT LIABILITIES

	<i>30 September 2018</i>	<i>(Audited) 31 December 2017</i>	<i>30 September 2017</i>
	<i>KD'000</i>	<i>KD'000</i>	<i>KD'000</i>
Acceptances and letters of credit	40,060	39,788	32,479
Letter of guarantees	95,016	62,865	59,709
Contingent liabilities	<u>135,076</u>	<u>102,653</u>	<u>92,188</u>
Capital commitments	<u>186</u>	<u>232</u>	<u>198</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

As at and for the period ended 30 September 2018

8 SEGMENT INFORMATION

The Group's operating segments are determined based on the reports reviewed by the decision makers that are used for strategic decisions. These segments are strategic business units that offer different products and services. They are managed separately since the nature of the products and services, class of customers and marketing strategies of these segments are different.

These operating segments meet the criteria for reportable segments and are, as follows:

- **Corporate** - comprising of range of banking services and investment products to corporate customers, in addition to providing commodity and real estate murabaha finance and 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 September 2018</i>						
Segment operating income	21,968	5,981	2,223	4,730	-	34,902
Segment result	9,902	531	2,280	3,610	(7,641)	8,682
Segment assets	1,145,048	307,645	202,587	233,637	82,857	1,971,774
Segment liabilities	145,834	348,477	1,264,138	-	32,223	1,790,672
<i>30 September 2017 (Restated)</i>						
Segment operating income	17,473	4,836	1,420	3,256	-	26,985
Segment result	9,440	(1,156)	1,190	2,710	(7,247)	4,937
Segment assets	977,662	245,441	223,271	183,155	41,010	1,670,539
Segment liabilities	140,519	295,065	1,042,749	-	18,286	1,496,619
<i>31 December 2017 (Restated)</i>						
Segment assets	1,004,046	259,277	246,484	222,191	42,547	1,774,545
Segment liabilities	187,227	282,344	1,112,146	-	15,869	1,597,586

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

As at and for the period ended 30 September 2018

9 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Financial instruments comprise financial assets and financial liabilities.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in an active market for identical assets and liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: other techniques which use inputs which have a significant effect on the recorded fair value are not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	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
30 September 2018					
<i>Assets measured at fair value</i>					
<i>Financial assets at FVTPL</i>					
Quoted equity securities	30 September 2018	5,350	5,350	-	-
Funds	30 September 2018	17,819	-	-	17,819
Managed portfolio	30 September 2018	7,369	-	-	7,369
		<u>30,538</u>	<u>5,350</u>	<u>-</u>	<u>25,188</u>
<i>Financial assets at FVOCI</i>					
Quoted Sukuk					
- Sovereign Sukuk	30 September 2018	43,767	43,767	-	-
- Corporate Sukuk	30 September 2018	97,411	97,411	-	-
Unquoted Sukuk	30 September 2018	2,000	-	-	2,000
Unquoted equity security	30 September 2018	4,633	-	-	4,633
		<u>147,811</u>	<u>141,178</u>	<u>-</u>	<u>6,633</u>
<i>Derivative financial instruments (note 10)</i>					
Profit rate swaps	30 September 2018	912	-	912	-
		<u>912</u>	<u>-</u>	<u>912</u>	<u>-</u>
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
		<u>144,900</u>	<u>138,896</u>	<u>-</u>	<u>6,004</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

As at and for the period ended 30 September 2018

9 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)

30 September 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 investment					
Quoted Sukuk					
- 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
		<u>116,057</u>	<u>109,983</u>	<u>-</u>	<u>6,074</u>

*At 31 December 2017 and 30 September 2017, certain securities amounting to KD 21,021 thousand and KD 21,150 thousand respectively, that do not have a quoted price in an active market and whose fair value cannot be measured reliably were accounted at cost (in accordance with IAS 39).

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	At 30 September 2018 KD 000's
<i>Financial assets at FVTPL</i>					
Funds	16,308	1,070	656	(215)	17,819
Managed portfolio	7,295	-	74	-	7,369
	<u>23,603</u>	<u>1,070</u>	<u>730</u>	<u>(215)</u>	<u>25,188</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>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	At 31 December 2017 KD 000's
<i>Available-for-sale investments</i>					
Unquoted Sukuk	2,000	-	-	-	2,000
Managed Portfolio	4,281	-	-	(277)	4,004
	<u>6,281</u>	<u>-</u>	<u>-</u>	<u>(277)</u>	<u>6,004</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

As at and for the period ended 30 September 2018

9 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)

	<i>At 1 January 2017</i>	<i>Change in fair value</i>	<i>Additions</i>	<i>Sale/ redemption</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>
Available for sale investments					
Unquoted Sukuk	2,000	-	-	-	2,000
Managed Portfolio	4,281	-	-	(207)	4,074
	<u>6,281</u>	<u>-</u>	<u>-</u>	<u>(207)</u>	<u>6,074</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 profit or loss would be immaterial if the relevant risk variables used to fair value the unquoted securities were altered by 5 percent.

10 DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are financial instruments that derive their value by referring to profit rates, foreign exchange rates, index of prices or rates and credit rating or credit index. Notional principal amounts merely represent amounts to which a rate or price is applied to determine the amounts of cash flows to be exchanged and do not represent the potential gain or loss associated with the market or credit risk of such instruments.

Derivative financial instruments are carried at fair value in the consolidated statement of financial position. Positive fair value represents the cost of replacing all transactions with a fair value in the Group's favour had the rights and obligations arising from that instrument been closed in an orderly market transaction at the reporting date. Credit risk in respect of derivative financial instruments is limited to the positive fair value of the instruments. Negative fair value represents the cost to the Group's counter parties of replacing all their transactions with the Group.

The Group deals in interest rate swaps to manage its profit rate risk on profit bearing assets and liabilities and to provide profit rate risk management solutions to customers.

Profit rate swap

Profit rate swaps are contractual agreements between two counter-parties to exchange profit payments on a defined principal amount for a fixed period of time. The Group applies cash flow hedge accounting using a profit rate swap to hedge one of its foreign currency deposits with maturity up to 3 years against profit rate fluctuations. The Group implements effectiveness tests at financial position dates for hedge accounting, the effective portions are accounted as part of changes in fair value of derivatives under fair value reserve, whereas the ineffective portion is recognised in interim condensed consolidated statement of profit or loss. No ineffectiveness from hedges was recognised in interim condensed consolidated statement of profit or loss during the period.

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As at and for the period ended 30 September 2018

10 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The fair value of derivative financial instruments included in the financial records, together with their notional amounts is summarised as follows:

	<i>30 September 2018</i>	
	<i>Positive fair value KD 000's</i>	<i>Notional KD 000's</i>
<i>Profit rate swaps (held as cash flow hedge)</i>	912	120,840
	<u>912</u>	<u>120,840</u>

There were no derivative financial instruments as at 31 December 2017 and 30 September 2017.

11 COMPARATIVE INFORMATION

The comparative information for the year ended 31 December 2017 and the period ended 30 September 2017 has been restated to reflect the change in accounting policies from the cost model to the fair value model for investment properties. Management takes the view that this policy provides reliable and more relevant information as fair values give users of financial statements more useful information than other measurements. The policy has been applied retrospectively.

The following adjustments have been made to the 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>
<i>As at 31 December 2017</i>			
<i>Assets</i>			
Investment in joint ventures	31,102	31,660	558
Investment properties	23,666	24,611	945
	<u> </u>	<u> </u>	<u> </u>
<i>Equity</i>			
Accumulated losses	(944)	559	1,503
	<u> </u>	<u> </u>	<u> </u>
<i>As at 30 September 2017</i>			
<i>Assets</i>			
Investment in joint ventures	20,962	20,962	-
Investment properties	23,982	24,984	1,002
	<u> </u>	<u> </u>	<u> </u>
<i>Equity</i>			
Accumulated losses	(2,960)	(1,958)	1,002
	<u> </u>	<u> </u>	<u> </u>
<i>As at 1 January 2017</i>			
<i>Assets</i>			
Investments in joint ventures	-	-	-
Investment properties	14,815	15,632	817
	<u> </u>	<u> </u>	<u> </u>
<i>Equity</i>			
Accumulated losses	(4,798)	(3,981)	817
	<u> </u>	<u> </u>	<u> </u>
<i>Statement of profit or loss</i>			
	<i>As previously reported KD 000's</i>	<i>Restated KD 000's</i>	<i>Effect of Change KD 000's</i>
<i>Period ended 30 September 2017</i>			
Investment income	3,832	4,017	185
	<u> </u>	<u> </u>	<u> </u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
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12 SHARE CAPITAL

The authorised, issued and paid-up capital of the Bank comprises 1,000 million ordinary shares of 100 fils each (31 December 2017 and 30 September 2017: 1,000 million shares of 100 fils each). All shares are paid in cash.

During the period, the Bank obtained the necessary approvals from the regulatory authorities to increase the share capital of the Bank from KD 100 million to KD 150 million, an increase of KD 50 million distributed among 500 million shares at a nominal value of 100 fils per share, with a premium. The capital increase is subject to the approval of the shareholders of the bank.