

**WARBA BANK K.S.C.P.**

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

**31 MARCH 2019**



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 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 2019, and the related interim condensed consolidated statements of profit or loss, comprehensive income, changes in equity and 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 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 condensed consolidated 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 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 three-month period ended 31 March 2019 that might have had a material effect on the business of the Bank or on its financial position.

We further report that, during the course of our 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 2019 that might have had a material effect on the business of the Bank or on its financial position.

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

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


15 May 2019  
Kuwait

Warba Bank K.S.C.P.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

As at 31 March 2019

		<i>(Audited)</i> <b>31 March</b> 2019 <b>KD'000</b>	<i>(Audited)</i> <b>31 December</b> 2018 <b>KD'000</b>	<i>(Restated)</i> <b>31 March</b> 2018 <b>KD'000</b>
<b>ASSETS</b>				
Cash and balances with banks	3	<b>104,572</b>	20,015	45,826
Placements with banks and the CBK		<b>360,784</b>	256,486	164,550
Financing receivables		<b>1,761,617</b>	1,607,945	1,361,135
Financial assets at fair value through profit or loss	8	<b>46,864</b>	41,500	29,500
Financial assets at fair value through other comprehensive income	8	<b>166,866</b>	148,585	145,607
Investments in joint ventures		<b>67,540</b>	52,498	30,886
Investment properties		<b>23,189</b>	22,867	24,220
Other assets		<b>39,463</b>	26,218	28,692
Property and equipment		<b>22,049</b>	18,358	5,468
<b>TOTAL ASSETS</b>		<b>2,592,944</b>	2,194,472	1,835,884
<b>LIABILITIES AND EQUITY</b>				
<b>LIABILITIES</b>				
Due to banks and other financial institutions		<b>1,020,110</b>	835,063	684,646
Depositors' accounts		<b>1,248,490</b>	1,053,178	944,725
Other liabilities		<b>47,649</b>	35,303	28,534
<b>TOTAL LIABILITIES</b>		<b>2,316,249</b>	1,923,544	1,657,905
<b>EQUITY</b>				
Share capital		<b>150,000</b>	150,000	100,000
Share premium		<b>40,000</b>	40,000	-
Statutory reserve		<b>1,353</b>	1,353	-
Fair value reserve		<b>(501)</b>	(4,646)	(582)
Foreign currency translation reserve		<b>418</b>	79	249
Retained earnings		<b>9,062</b>	7,779	1,949
<b>EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE BANK</b>		<b>200,332</b>	194,565	101,616
Perpetual Tier 1 Sukuk		<b>76,363</b>	76,363	76,363
<b>TOTAL EQUITY</b>		<b>276,695</b>	270,928	177,979
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>2,592,944</b>	2,194,472	1,835,884

  
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 PROFIT OR LOSS  
(UNAUDITED)

For the period ended 31 March 2019

	<i>Note</i>	<i>Three months ended</i>	
		<i>2019</i>	<i>2018</i>
		<i>KD'000</i>	<i>KD'000</i>
Placements and financing income		22,655	16,229
Finance costs and distribution to depositors		(12,958)	(7,891)
<b>Net financing income</b>		<b>9,697</b>	<b>8,338</b>
Net investment income		3,508	1,091
Net fee and commission income		1,201	812
Other income		75	164
Foreign exchange (loss) gain		(255)	475
<b>Operating income</b>		<b>14,226</b>	<b>10,880</b>
Staff costs		(3,486)	(2,648)
General and administrative expenses		(804)	(1,078)
Depreciation		(765)	(290)
<b>Operating expenses</b>		<b>(5,055)</b>	<b>(4,016)</b>
<b>Net operating profit before provision for impairment</b>		<b>9,171</b>	<b>6,864</b>
Provision for impairment		(5,166)	(3,807)
<b>Net profit for the period before deductions</b>		<b>4,005</b>	<b>3,057</b>
Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)		(36)	(28)
National Labor Support Tax (NLST)		(106)	(80)
Zakat		(42)	(32)
<b>NET PROFIT FOR THE PERIOD</b>		<b>3,821</b>	<b>2,917</b>
<b>Basic and diluted earnings per share (EPS)</b>	4	<b>0.90 fils</b>	<b>0.44 fils</b>

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

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**INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)**

For the period ended 31 March 2019

	<i>Three months ended</i>	
	<i>31 March</i>	
	<i>2019</i>	<i>2018</i>
	<i>KD'000</i>	<i>KD'000</i>
<b>Net profit for the period</b>	<b>3,821</b>	2,917
<b>Other comprehensive income (loss):</b>		
<i>Other comprehensive income (loss) that are or may be reclassified to profit or loss in subsequent periods:</i>		
Change in fair value of debt instruments at fair value through other comprehensive income	4,456	(2,138)
Realised loss on sale of debt instruments at fair value through other comprehensive income	24	648
Exchange differences on translation of foreign operations	339	(2)
Net loss from hedging cash flows	(335)	-
<b>Other comprehensive income (loss) for the period</b>	<b>4,484</b>	(1,492)
<b>Total comprehensive income for the period</b>	<b>8,305</b>	1,425

Warba Bank K.S.C.P.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the period ended 31 March 2019

	Share capital KD '000	Share premium KD '000	Statutory reserve KD '000	Fair value reserve KD '000	Foreign currency translation reserve KD '000	Retained earnings KD '000	Equity attributable to shareholders of the Bank KD '000's	Perpetual Tier 1 Sukuk KD '000	Total equity KD '000
Balance at 1 January 2019 (audited)	150,000	40,000	1,353	(4,646)	79	7,779	194,565	76,363	270,928
Transition adjustment on adoption of IFRS 16 at 1 January 2019 (Note 2.2)	-	-	-	-	-	(68)	(68)	-	(68)
Balance at 1 January 2019 after the transition adjustment on adoption of IFRS 16	150,000	40,000	1,353	(4,646)	79	7,711	194,497	76,363	270,860
Net profit for the period	-	-	-	-	-	3,821	3,821	-	3,821
Other comprehensive income	-	-	-	4,145	339	-	4,484	-	4,484
Total comprehensive income for the period	-	-	-	4,145	339	3,821	8,305	-	8,305
Profit paid on Perpetual Tier 1 Sukuk	-	-	-	-	-	(2,470)	(2,470)	-	(2,470)
<b>Balance at 31 March 2019</b>	<b>150,000</b>	<b>40,000</b>	<b>1,353</b>	<b>(501)</b>	<b>418</b>	<b>9,062</b>	<b>200,332</b>	<b>76,363</b>	<b>276,695</b>
Balance at 1 January 2018 (audited)	100,000	-	-	(214)	251	(944)	99,093	76,363	175,456
Effect of change in accounting policy	-	-	-	-	-	1,503	1,503	-	1,503
Balance 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	-	-	-	1,122	-	915	2,037	-	2,037
Balance as at 1 January 2018 after IFRS 9 transition adjustment	100,000	-	-	908	251	1,474	102,633	76,363	178,996
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 (restated)	100,000	-	-	(582)	249	1,949	101,616	76,363	177,979

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
(UNAUDITED)

For the period ended 31 March 2019

	Note	Three months ended 31 March	
		2019 KD'000	2018 KD'000
<b>OPERATING ACTIVITIES</b>			
Net profit for the period		3,821	2,917
Adjustments for:			
Realised loss on sale of debt instruments at fair value through other comprehensive income		24	648
Dividend income		(276)	(359)
Sukuk income		(1,719)	(1,432)
Share of results from investments in joint ventures		(340)	(442)
Net rental income from investment properties		(299)	(293)
Unrealized loss on change in fair value of investment properties		-	825
Other investment income		(203)	(34)
Unrealized gain from financial assets at fair value through profit or loss		(695)	(4)
Provision for employees' end of service benefits		240	198
Depreciation		765	290
Provision for impairment		5,166	3,807
		<u>6,484</u>	<u>6,121</u>
<i>Changes in operating assets and liabilities:</i>			
Placements with banks and the CBK		4,839	31,135
Financing receivables		(159,692)	(100,549)
Other assets		(13,018)	(6,297)
Due to banks and other financial institutions		184,892	111,520
Depositors' accounts		195,312	(61,889)
Other liabilities		8,467	9,507
		<u>227,284</u>	<u>(10,452)</u>
<b>INVESTING ACTIVITIES</b>			
Purchase of financial assets at fair value through profit and loss		(4,856)	(5,209)
Proceeds from sale/ redemption of financial assets at fair value through profit or loss		187	71
Purchase of financial assets at fair value through other comprehensive income		(23,556)	(85,986)
Proceeds from sale of financial assets at fair value through other comprehensive income		10,014	82,059
Additions to investments in joint ventures		(15,067)	-
Purchase of property and equipment		(135)	(187)
Dividend received from financial assets		276	359
Sukuk income received		1,110	2,103
Other investment income received		203	34
Dividends received from joint ventures		522	1,016
Rental income received		460	422
		<u>(30,842)</u>	<u>(5,318)</u>
<b>FINANCING ACTIVITIES</b>			
Profit paid on perpetual Tier 1 Sukuk		(2,470)	(2,442)
		<u>(2,470)</u>	<u>(2,442)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>			
Cash and cash equivalents at 1 January		193,972	(18,212)
		<u>229,926</u>	<u>181,399</u>
<b>CASH AND CASH EQUIVALENTS AT 31 MARCH</b>	3	<u>423,898</u>	<u>163,187</u>

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

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL  
INFORMATION (UNAUDITED)

As at and for the period ended 31 March 2019

**1 CORPORATE INFORMATION**

Warba Bank K.S.C.P. (the “Bank”) is a Kuwaiti public shareholding company, incorporated on 17 February 2010 in the State of Kuwait by virtue of Amiri Decree No. 289/2009. The Bank is registered as an Islamic banking institution in accordance with the rules and regulations of the Central Bank of Kuwait (the “CBK”) on 7 April 2010 and its shares are publicly traded on the Boursa Kuwait. The Bank’s registered office is at Sanabil Tower, 26<sup>th</sup> – 28<sup>th</sup> floor, Abdullah Al Ahmed Street, P.O. Box 1220, Safat 13013, State of Kuwait.

The Bank is primarily involved in investment, corporate and retail banking activities in accordance with the principles of Islamic Sharī’a, as approved by the Bank’s Sharī’a Supervisory Board.

The annual general assembly meeting (“AGM”) of the shareholders of the Bank held on 20 March 2019 approved the consolidated financial statements for the year ended 31 December 2018. No cash dividends or bonus shares were declared for the year ended 31 December 2018 (31 December 2017: Nil).

This interim condensed consolidated financial information as at and for the three months ended 31 March 2019 includes 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 of the Board of Directors on 10 April 2019.

**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 IAS 34 *Interim Financial Reporting*, except as noted below.

The annual consolidated financial statements for the year ended 31 December 2018 were prepared in accordance with the regulations for financial services institutions as issued by the Central Bank of Kuwait (“CBK”) in the State of Kuwait. These regulations require expected credit loss (“ECL”) to be measured at the higher of the ECL on financing facilities computed under IFRS 9 according to the CBK guidelines or the provisions as required by CBK instructions; the consequent impact on related disclosures; and the adoption of all other requirements of International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (“IASB”) (collectively referred to as IFRS, as adopted for use by the State of Kuwait).

The interim condensed consolidated financial information does not include all the information and disclosures required in the Group’s annual consolidated financial statements and should be read in conjunction with the Group’s annual consolidated financial statements as at 31 December 2018.

The interim condensed consolidated financial information provides comparative information in respect of the previous period. Certain reclassifications have been made to conform the prior period’s financial information and notes thereto to current period’s presentation. In addition, the Group restated comparative information due to a retrospective restatement (See Note 10).

**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 2018, except for the adoption of new standards effective as of 1 January 2019. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

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**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)**

As at and for the period ended 31 March 2019

**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 16 'Leases'**

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

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

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

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

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

**a) Nature of the effect of adoption of IFRS 16**

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

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

*Leases previously accounted for as operating leases*

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

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL  
INFORMATION (UNAUDITED)

As at and for the period ended 31 March 2019

**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 16 'Leases' (continued)**

**a) Nature of the effect of adoption of IFRS 16 (continued)**

The Group also applied the available practical expedients wherein it:

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

**b) Summary of new accounting policies**

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

*Right-of-use assets*

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

*Lease liabilities*

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

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

*Short-term leases and leases of low-value assets*

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

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**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)**

As at and for the period ended 31 March 2019

**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 16 'Leases' (continued)****b) Summary of new accounting policies (continued)***Significant judgement in determining the lease term of contracts with renewal options*

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

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

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

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

	<i>Right-of-use assets</i>			<i>Lease liabilities KD 000's</i>
	<i>Property KD 000's</i>	<i>Motor vehicles KD 000's</i>	<i>Total KD 000's</i>	
<b>As at 1 January 2019</b>	<b>4,276</b>	<b>45</b>	<b>4,321</b>	<b>4,120</b>
Depreciation expense	(508)	(11)	(519)	-
Finance cost	-	-	-	26
<b>As at 31 March 2019</b>	<b>3,768</b>	<b>34</b>	<b>3,802</b>	<b>4,146</b>

The Group recognised rent expense from short-term leases of KD 1,478 and leases of low-value assets of KD 6,624 for the three months ended 31 March 2019.

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL  
INFORMATION (UNAUDITED)

As at and for the period ended 31 March 2019

**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>2019</i> <i>KD'000</i>	<i>(Audited)</i> <i>31 December</i> <i>2018</i> <i>KD'000</i>	<i>31 March</i> <i>2018</i> <i>KD'000</i>
Cash	5,398	3,727	2,676
Current account with the CBK	85,502	9,293	34,337
Current account with commercial banks	13,672	6,995	8,813
<b>Total cash and balances with banks</b>	<b>104,572</b>	<b>20,015</b>	<b>45,826</b>
Placements with the CBK whose original maturity is within 3 months	69,123	60,125	41,111
Placements with banks whose original maturity is within 3 months	250,203	149,786	76,250
<b>Total cash and cash equivalents</b>	<b>423,898</b>	<b>229,926</b>	<b>163,187</b>

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

**4 BASIC AND DILUTED EARNINGS PER SHARE**

Basic and diluted earnings per share are calculated by dividing net profit for the period of the 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>2019</i>	<i>2018</i>
Net profit for the period (KD'000)	3,821	2,917
Less: profit payment on Perpetual Tier 1 Sukuk (KD'000)	(2,470)	(2,442)
	<b>1,351</b>	<b>475</b>
Weighted average number of shares outstanding (shares'000)	<b>1,500,000</b>	<b>1,084,615</b>
Basic and diluted earnings per share (fils)	<b>0.90</b>	<b>0.44</b>

The comparative basic and diluted earnings per share have been restated as a result of the shares issued to the shareholders of the Bank.

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

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**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL  
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As at and for the period ended 31 March 2019

**5 RELATED PARTY DISCLOSURES**

Related parties comprise the major shareholders, board of directors, entities controlled by them or under their joint control, associates, key management personnel and their close family members. Balances with related parties arise from commercial transactions in the normal course of business on terms approved by the management.

**5.1 Remuneration of the Bank's key management personnel:**

Key management personnel are those individuals who have the authority and responsibility for planning and exercising power to directly or indirectly control the activities of the Bank and its employees. The Bank considers the members of the Board of Directors (and its sub-committees) and Executive Committee to be key management personnel for the purposes of IAS 24 *Related Party Disclosures*.

	<i>Three months ended 31 March</i>	
	<b>2019</b> <b>KD'000</b>	<b>2018</b> <b>KD'000</b>
Salaries and short-term benefits	412	419
End of service benefits	36	35
	<u>448</u>	<u>454</u>

**5.2 Transactions with Bank's key management personnel and board of directors' members:**

The Bank enters into transactions, arrangements and agreements involving senior management and their controlled business, or close family members, in the ordinary course of business under the same commercial and market terms, profit and commission rates that apply to non-related parties.

The following table shows the total amount of transactions, which have been entered into with key management personnel for the relevant financial period/ year which are included in the interim condensed consolidated statement of financial position:

	<i>31 March 2019</i> <i>KD'000</i>	<i>31 December 2018</i> <i>KD'000</i>	<i>31 March 2018</i> <i>KD'000</i>
Financing facilities	1,443	1,469	1,876
Credit cards	7	7	12
Depositors' accounts	3,305	1,029	1,434

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

	<i>31 March 2019</i>	<i>31 December 2018</i>	<i>31 March 2018</i>
Financing facilities	6	5	5
Credit cards	6	7	7
Depositors' accounts	48	41	38

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**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)**

As at and for the period ended 31 March 2019

**5 RELATED PARTY DISCLOSURES (continued)****5.2 Transactions with Bank's key management personnel and board of directors' members (continued):**

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

	<i>Three months ended</i>	
	<i>31 March</i>	
	<i>2019</i>	<i>2018</i>
	<i>KD'000</i>	<i>KD'000</i>
Placements and financing income	22	77
Finance costs and distribution to depositors	5	-

**5.3 Transactions with major shareholders:**

In addition to transactions with key management, the Bank enters into transactions with major shareholders and other entities which the Bank has direct or indirect control, including common control, joint control and significant influence.

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

	<i>31 March</i>	<i>31 December</i>	<i>31 March</i>
	<i>2019</i>	<i>2018</i>	<i>2018</i>
	<i>KD'000</i>	<i>KD'000</i>	<i>KD'000</i>
Depositors' accounts	846,088	861,627	720,234

The number of major shareholders is as follows:

	<i>31 March</i>	<i>31 December</i>	<i>31 March</i>
	<i>2019</i>	<i>2018</i>	<i>2018</i>
Depositors' accounts	2	2	2

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

	<i>Three months ended</i>	
	<i>31 March</i>	
	<i>2019</i>	<i>2018</i>
	<i>KD'000</i>	<i>KD'000</i>
Finance costs and distribution to depositors	5,712	3,496

The above-mentioned outstanding balances arose from the ordinary course of business. The profit rates charged to, and by, related parties are at normal commercial rates. Outstanding balances at the period-end are unsecured. There have been no guarantees provided or received for any related party receivables or payables during the period ended 31 March 2019.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL  
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As at and for the period ended 31 March 2019

6 COMMITMENTS AND CONTINGENT LIABILITIES

	<i>31 March</i> <i>2019</i> <i>KD'000</i>	<i>(Audited)</i> <i>31 December</i> <i>2018</i> <i>KD'000</i>	<i>31 March</i> <i>2018</i> <i>KD'000</i>
Acceptances and letters of credit	44,117	33,210	25,955
Letter of guarantees	96,355	91,209	84,405
Contingent liabilities	<u>140,472</u>	<u>124,419</u>	<u>110,360</u>
Capital commitments	<u>189</u>	<u>223</u>	<u>169</u>

7 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 and financial institutions.
- ▶ **Investment** - comprising of investment in direct equity, real estate investment and other investments.
- ▶ **Other** – comprising of cost center assets and expenses.

Management monitors the operating segments separately for the purpose of making decisions about resource allocation and performance assessment.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL  
INFORMATION (UNAUDITED)

As at and for the period ended 31 March 2019

## 7 SEGMENT INFORMATION (continued)

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>
<b>31 March 2019</b>						
Operating income	7,808	2,981	1,673	1,764	-	14,226
Net profit (loss) for the period	3,205	797	1,320	1,179	(2,680)	3,821
Total assets	1,416,342	345,275	360,784	304,459	166,084	2,592,944
Total liabilities	188,790	407,675	1,672,135	-	47,649	2,316,249
	<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>
<b>31 March 2018</b>						
Operating income	7,328	2,085	1,072	395	-	10,880
Net profit (loss) for the period	4,087	256	1,008	194	(2,628)	2,917
Total assets (Restated)	1,092,492	268,643	164,550	230,213	79,986	1,835,884
Total liabilities (Restated)	157,453	315,034	1,156,884	-	28,534	1,657,905

## 8 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

**Fair value hierarchy**

The 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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL  
INFORMATION (UNAUDITED)

As at and for the period ended 31 March 2019

## 8 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

	<i>Total</i> <i>KD'000</i>	<i>Fair value measurement</i>		
		<i>Quoted prices</i> <i>in active</i> <i>markets</i> <i>(Level 1)</i> <i>KD'000</i>	<i>Significant</i> <i>observable</i> <i>inputs</i> <i>(Level 2)</i> <i>KD'000</i>	<i>Significant</i> <i>unobservable</i> <i>inputs</i> <i>(Level 3)</i> <i>KD'000</i>
<b>31 March 2019</b>				
<b>Financial assets measured at fair value:</b>				
<i>Financial assets at fair value through profit or loss</i>				
Quoted equity instruments	7,871	7,871	-	-
Funds (unquoted)	31,194	-	-	31,194
Other securities (unquoted)	7,799	-	-	7,799
	<u>46,864</u>	<u>7,871</u>	<u>-</u>	<u>38,993</u>
<i>Financial assets at fair value through other comprehensive income</i>				
Quoted Sukuk				
- Sovereign Sukuk	56,865	56,865	-	-
- Corporate Sukuk	104,509	104,509	-	-
	<u>161,374</u>	<u>161,374</u>	<u>-</u>	<u>-</u>
Unquoted equity instruments	5,492	-	-	5,492
	<u>166,866</u>	<u>161,374</u>	<u>-</u>	<u>5,492</u>
Derivative financial instruments (Note 9)				
Profit rate swaps	(278)	(278)	-	-

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL  
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As at and for the period ended 31 March 2019

## 8 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

		<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>
<i>31 December 2018</i>	<i>Total KD'000</i>			
<b>Financial assets measured at fair value:</b>				
<i>Financial assets at fair value through profit or loss</i>				
Quoted equity instruments	7,159	7,159	-	-
Funds (unquoted)	26,430	-	-	26,430
Other securities (unquoted)	7,911	-	-	7,911
	<u>41,500</u>	<u>7,159</u>	<u>-</u>	<u>34,341</u>
<i>Financial assets at fair value through other comprehensive income</i>				
Quoted Sukuk				
- Sovereign Sukuk	43,683	43,683	-	-
- Corporate Sukuk	97,410	97,410	-	-
	<u>141,093</u>	<u>141,093</u>	<u>-</u>	<u>-</u>
Unquoted Sukuk	2,000	-	-	2,000
Unquoted equity instruments	5,492	-	-	5,492
	<u>148,585</u>	<u>141,093</u>	<u>-</u>	<u>7,492</u>
Derivative financial instruments (Note 9)				
Profit rate swaps	57	57	-	-
	<u>57</u>	<u>57</u>	<u>-</u>	<u>-</u>
		<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>
<i>31 March 2018</i>	<i>Total KD'000</i>			
<b>Financial assets measured at fair value:</b>				
<i>Financial assets at fair value through profit or loss</i>				
Quoted equity instruments	5,267	5,267	-	-
Funds (unquoted)	16,893	-	-	16,893
Other securities (unquoted)	7,340	-	-	7,340
	<u>29,500</u>	<u>5,267</u>	<u>-</u>	<u>24,233</u>
<i>Financial assets at fair value through other comprehensive income</i>				
Quoted Sukuk				
- Sovereign Sukuk	35,721	35,721	-	-
- Corporate Sukuk	103,253	103,253	-	-
	<u>138,974</u>	<u>138,974</u>	<u>-</u>	<u>-</u>
Unquoted Sukuk	2,000	-	-	2,000
Unquoted equity instruments	4,633	-	-	4,633
	<u>145,607</u>	<u>138,974</u>	<u>-</u>	<u>6,633</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL  
INFORMATION (UNAUDITED)

As at and for the period ended 31 March 2019

## 8 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

31 March 2019

	<i>At</i> <i>1 January 2019</i>	<i>Additions</i>	<i>Sale/ redemption</i>	<i>Change in fair</i> <i>value</i>	<i>At</i> <i>31 March</i> <i>2019</i>
	<i>KD'000</i>	<i>KD'000</i>	<i>KD'000</i>	<i>KD'000</i>	<i>KD'000</i>
<b>Financial assets at fair value through profit or loss</b>					
Funds (unquoted)	26,430	4,856	(75)	(17)	31,194
Other securities (unquoted)	7,911	-	(112)	-	7,799
	<u>34,341</u>	<u>4,856</u>	<u>(187)</u>	<u>(17)</u>	<u>38,993</u>
<b>Financial assets at fair value through other comprehensive income</b>					
Unquoted Sukuk	2,000	-	(2,000)	-	-
Unquoted equity instruments	5,492	-	-	-	5,492
	<u>7,492</u>	<u>-</u>	<u>(2,000)</u>	<u>-</u>	<u>5,492</u>

31 December 2018

	<i>At</i> <i>1 January 2018</i>	<i>Additions</i>	<i>Sale/ redemption</i>	<i>Change in fair</i> <i>value</i>	<i>At</i> <i>31 December</i> <i>2018</i>
	<i>KD'000</i>	<i>KD'000</i>	<i>KD'000</i>	<i>KD'000</i>	<i>KD'000</i>
<b>Financial assets at fair value through profit or loss</b>					
Funds (unquoted)	16,308	10,003	(290)	409	26,430
Other securities (unquoted)	7,295	713	-	(97)	7,911
	<u>23,603</u>	<u>10,716</u>	<u>(290)</u>	<u>312</u>	<u>34,341</u>
<b>Financial assets at fair value through other comprehensive income</b>					
Unquoted Sukuk	2,000	-	-	-	2,000
Unquoted equity instruments	4,633	10	-	849	5,492
	<u>6,633</u>	<u>10</u>	<u>-</u>	<u>849</u>	<u>7,492</u>

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As at and for the period ended 31 March 2019

**8 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**

31 March 2018

	<i>At</i> <i>1 January 2018</i>	<i>Additions</i>	<i>Sale/ redemption</i>	<i>Change in fair</i> <i>value</i>	<i>At</i> <i>31 March</i> <i>2018</i>
	<i>KD'000</i>	<i>KD'000</i>	<i>KD'000</i>	<i>KD'000</i>	<i>KD'000</i>
Financial assets at fair value through profit or loss					
Funds (unquoted)	16,308	656	(71)	-	16,893
Other securities (unquoted)	7,295	45	-	-	7,340
	<u>23,603</u>	<u>701</u>	<u>(71)</u>	<u>-</u>	<u>24,233</u>
Financial assets at fair value through other comprehensive income					
Unquoted Sukuk	2,000	-	-	-	2,000
Unquoted equity instruments	4,633	-	-	-	4,633
	<u>6,633</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,633</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.

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

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

**Profit rate swap**

Profit rate swaps are contractual agreements between two counter-parties to exchange profit payments on a defined principal amount for a fixed period of time. The Group applies cash flow hedge accounting using a profit rate swap to hedge one of its foreign currency deposits with maturity up to 3 years against profit rate fluctuations. The Group implements effectiveness tests at financial position dates for hedge accounting, the effective portions are accounted as part of changes in fair value of derivatives under fair value reserve, whereas the ineffective portion is recognised in 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 31 March 2019

**9 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:

	<u>31 March 2019</u>		<u>31 December 2018</u>	
	<i>Negative fair value KD 000's</i>	<i>Notional KD 000's</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>	<u>(278)</u>	<u>120,840</u>	<u>57</u>	<u>120,840</u>

There were no derivative financial instruments as at 31 March 2018.

**10 COMPARATIVE INFORMATION**

During the comparative period ended 31 March 2018, the Group applied for the first time IFRS 9 – *Financial Instruments* (IFRS 9) with the exception of requirements of the expected credit losses (ECL) on credit facilities which have been replaced by the provisioning requirements of Central Bank of Kuwait (CBK) effective as of 1 January 2018 (initial application date).

On 25 December 2018, the CBK issued a circular to all local banks concerning the application of IFRS 9 for financial services institutions, which requires expected credit loss (“ECL”) to be measured at the higher of the ECL on financing facilities computed under IFRS 9 according to the CBK guidelines or the provisions as required by CBK instructions. As a result, the Group applied these guidelines for the first time in the consolidated financial statements for the year ended 31 December 2018 and recorded the impact in the opening retained earnings at 1 January 2018 which is the date of initial application as permitted by the transitional provisions of the standard. Accordingly, the comparative information for the prior period ended 31 March 2018 has been restated to reflect the transitional provisions of IFRS 9 according to the CBK guidelines.

The following adjustments have been made to the comparative financial information:

<i>31 March 2018</i>	<i>As previously reported KD'000</i>	<i>Effect of restatement KD'000</i>	<i>After restatement KD'000</i>
<i>Interim condensed consolidated statement of financial position</i>			
<i>Assets</i>			
Financing receivables	<u>1,360,689</u>	<u>446</u>	<u>1,361,135</u>
<i>Liabilities</i>			
Other liabilities	<u>27,236</u>	<u>1,298</u>	<u>28,534</u>
<i>Equity</i>			
Retained earnings	<u>2,801</u>	<u>(852)</u>	<u>1,949</u>

The above retrospective application did not have a material effect on the Group’s previously reported profit for the three months ended 31 March 2018.

For details on the transition adjustment on adoption of IFRS 9 according to the CBK guidelines, please refer to the disclosures in the consolidated financial statements for the year ended 31 December 2018.