

WARBA BANK K.S.C.P.

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

30 SEPTEMBER 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 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 2019, and the related interim condensed consolidated statement of profit or loss and interim condensed consolidated 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 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 nine-month period ended 30 September 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 nine-month period ended 30 September 2019 that might have had a material effect on the business of the Bank or on its financial position.

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(AL AIBAN, AL OSAIMI & PARTNERS)

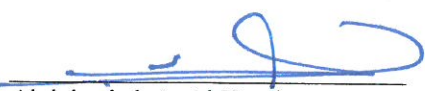
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Warba Bank K.S.C.P.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

As at 30 September 2019

		<i>(Audited)</i>	<i>(Restated)</i>
	<i>30 September</i>	<i>31 December</i>	<i>30 September</i>
	<i>2019</i>	<i>2018</i>	<i>2018</i>
<i>Notes</i>	<i>KD'000</i>	<i>KD'000</i>	<i>KD'000</i>
ASSETS			
Cash and balances with banks	3	198,533	20,015
Placements with banks and the CBK		394,945	256,486
Financing receivables		2,070,124	1,607,945
Financial assets at fair value through profit or loss	9	53,779	41,500
Financial assets at fair value through other comprehensive income	9	218,462	148,585
Investment in joint ventures		78,121	52,498
Investment properties		20,748	22,867
Other assets		27,999	26,218
Property and equipment		21,970	18,358
TOTAL ASSETS		3,084,681	2,194,472
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks and other financial institutions		965,036	835,063
Depositors' accounts		1,636,869	1,053,178
Sukuk issued	4	151,514	-
Other liabilities		43,752	35,303
TOTAL LIABILITIES		2,797,171	1,923,544
EQUITY			
Share capital		150,000	150,000
Share premium		40,000	40,000
Statutory reserve		1,353	1,353
Fair value reserve		5,111	(4,646)
Foreign currency translation reserve		(228)	79
Retained earnings		14,911	7,779
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE BANK		211,147	194,565
Perpetual Tier 1 Sukuk		76,363	76,363
TOTAL EQUITY		287,510	270,928
TOTAL LIABILITIES AND EQUITY		3,084,681	2,194,472


Abdulwahab A. Al Houti
Chairman


Shaheen H. Al Ghanem
Chief Executive Officer

The accompanying notes 1 to 11 form an integral part of this interim condensed consolidated financial information.

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
(UNAUDITED)**

For the period ended 30 September 2019

	<i>Note</i>	<i>Three months ended 30 September</i>		<i>Nine months ended 30 September</i>	
		<i>2019 KD'000</i>	<i>(Restated) 2018 KD'000</i>	<i>2019 KD'000</i>	<i>(Restated) 2018 KD'000</i>
Placements and finance income		26,238	19,054	73,841	52,486
Finance costs and distribution to depositors		(16,426)	(10,468)	(44,622)	(27,704)
Net finance income		9,812	8,586	29,219	24,782
Net investment income		4,165	3,046	8,855	7,247
Net fee and commission income		495	611	2,695	2,292
Other income		139	35	260	246
Foreign exchange gain (loss)		454	(213)	918	335
Net operating income		15,065	12,065	41,947	34,902
Staff costs		(3,750)	(3,016)	(10,828)	(8,521)
General and administrative expenses		(968)	(1,201)	(2,895)	(3,657)
Depreciation expense		(770)	(286)	(2,283)	(867)
Net operating expenses		(5,488)	(4,503)	(16,006)	(13,045)
Net operating profit before provision for impairment and credit losses		9,577	7,562	25,941	21,857
Provision for impairment and credit losses		(3,666)	(4,468)	(13,218)	(13,319)
Profit before tax		5,911	3,094	12,723	8,538
Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)		(54)	(33)	(115)	(82)
National Labour Support Tax (NLST)		(153)	(94)	(332)	(235)
Zakat		(61)	(38)	(133)	(94)
NET PROFIT FOR THE PERIOD		5,643	2,929	12,143	8,127
BASIC AND DILUTED EARNINGS PER SHARE (EPS)	5	2.11 fils	0.43 fils	4.80 fils	2.97 fils

The accompanying notes 1 to 11 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 2019

	<i>Three months ended</i> <i>30 September</i>		<i>Nine months ended</i> <i>30 September</i>	
	<i>2019</i> <i>KD'000</i>	<i>(Restated)</i> <i>2018</i> <i>KD'000</i>	<i>2019</i> <i>KD'000</i>	<i>(Restated)</i> <i>2018</i> <i>KD'000</i>
Net profit for the period	5,643	2,929	12,143	8,127
Other comprehensive income (loss) <i>Other comprehensive income (loss) that will be reclassified to profit or loss in subsequent periods:</i>				
<i>Debt instruments at fair value through other comprehensive income:</i>				
Change in fair value of debt instruments at fair value through other comprehensive income	2,935	618	10,929	(4,060)
Reclassification adjustment on sale of debt instruments at fair value through other comprehensive income	(69)	-	(35)	652
Net gains/(losses) on debt instruments at fair value through other comprehensive income	2,866	618	10,894	(3,408)
Exchange differences on translation of foreign operations	(231)	(57)	(307)	(25)
Net gain (loss) on cash flow hedges	39	410	(1,137)	912
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	2,674	971	9,450	(2,521)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	8,317	3,900	21,593	5,606

The accompanying notes 1 to 11 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 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	Perpetual Tier 1 Sukuk KD '000	Total equity KD '000
As at 1 January 2019 as previously reported (audited)	150,000	40,000	1,353	(4,646)	79	7,779	194,565	76,363	270,928
Transition adjustment on initial application of IFRS 16 at 1 January 2019 (Note 2.2)	-	-	-	-	-	(68)	(68)	-	(68)
At 1 January 2019 (restated)	150,000	40,000	1,353	(4,646)	79	7,711	194,497	76,363	270,860
Net profit for the period	-	-	-	-	-	12,143	12,143	-	12,143
Other comprehensive income (loss)	-	-	-	9,757	(307)	-	9,450	-	9,450
Total comprehensive income (loss) for the period	-	-	-	9,757	(307)	12,143	21,593	-	21,593
Profit paid on Perpetual Tier 1 Sukuk	-	-	-	-	-	(4,943)	(4,943)	-	(4,943)
At 30 September 2019	150,000	40,000	1,353	5,111	(228)	14,911	211,147	76,363	287,510
As at 1 January 2018 as previously reported (audited)	100,000	-	-	(214)	251	(944)	99,093	76,363	175,456
Effect of change in accounting policy	-	-	-	-	-	1,503	1,503	-	1,503
At 1 January 2018 (restated)	100,000	-	-	(214)	251	559	100,596	76,363	176,959
Transition adjustment on initial application of IFRS 9 at 1 January 2018	-	-	-	1,122	-	915	2,037	-	2,037
As at 1 January 2018 (restated)	100,000	-	-	908	251	1,474	102,633	76,363	178,996
Net profit for the period as restated (Note 11)	-	-	-	-	-	8,127	8,127	-	8,127
Other comprehensive loss	-	-	-	(2,496)	(25)	-	(2,521)	-	(2,521)
Total comprehensive (loss) income for the period (restated)	-	-	-	(2,496)	(25)	8,127	5,606	-	5,606
Profit paid on Perpetual Tier 1 Sukuk	-	-	-	-	-	(4,907)	(4,907)	-	(4,907)
At 30 September 2018 (restated)	100,000	-	-	(1,588)	226	4,694	103,332	76,363	179,695

The accompanying notes 1 to 11 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 2019

	Note	<i>Nine months ended 30 September</i>	
		2019	<i>(Restated)</i> 2018
		KD'000	KD'000
OPERATING ACTIVITIES			
Net profit for the period		12,143	8,127
<i>Adjustments for:</i>			
Realised (gain) loss on sale of debt instruments at fair value through other comprehensive income		(35)	652
Gain on sale of investment property		(61)	-
Dividend income from financial assets		(1,175)	(1,086)
Sukuk income		(5,769)	(4,440)
Share of results from investments in joint ventures		(2,480)	(1,147)
Net rental income from investment properties		(885)	(906)
Fair value adjustment to investment properties		(386)	938
Other investment income		(608)	(101)
Fair value loss (gain) from financial assets at fair value through profit or loss		2,544	(1,157)
Provision for employees' end of service benefits		592	482
Depreciation of property and equipment and right-of-use assets		2,283	867
Provision for impairment and credit losses		13,218	13,319
		19,381	15,548
<i>Changes in operating assets and liabilities:</i>			
Placements with banks and the CBK		(14,732)	16,439
Financing receivables		(476,177)	(197,824)
Other assets		(1,039)	2,886
Due to banks and other financial institutions		130,116	234,127
Depositors' accounts		583,691	(55,277)
Other liabilities		3,279	9,271
Net cash flows from operating activities		244,519	25,170
INVESTING ACTIVITIES			
Purchase of financial assets at fair value through profit and loss		(16,667)	(5,165)
Proceeds from sale/ redemption of financial assets at fair value through profit or loss		1,882	215
Purchase of financial assets at fair value through other comprehensive income		(95,372)	(122,253)
Proceeds from sale of financial assets at fair value through other comprehensive income		36,409	115,392
Additions to investment in joint ventures		(26,368)	-
Proceeds from sale of investment property		2,259	-
Purchase of property and equipment		(1,574)	(618)
Dividends received from financial assets		1,137	1,012
Sukuk income received		4,668	3,834
Other investment income received		608	-
Dividends received from joint ventures		3,092	1,057
Rental income received		1,140	1,161
Net cash flows used in investing activities		(88,786)	(5,365)
FINANCING ACTIVITIES			
Profit paid on perpetual Tier 1 Sukuk		(4,943)	(4,907)
Proceeds from issue of Sukuk		151,514	-
Net cash flows from (used in) financing activities		146,571	(4,907)
NET INCREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at 1 January		302,304	14,898
		229,926	181,231
CASH AND CASH EQUIVALENTS AT 30 SEPTEMBER	3	532,230	196,129

The accompanying notes 1 to 11 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 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, 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 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 nine months ended 30 September 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 for the nine months ended 30 September 2019 has been approved for issue in accordance with a resolution of the Board of Directors on 13 October 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 for the nine months ended 30 September 2019 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 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 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.

The Group applies, for the first time, IFRS 16 Leases that requires restatement of previous financial statements. As required by IAS 34, the nature and effect of these changes are disclosed below. Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the interim condensed consolidated financial information of the Group.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

As at and for the period ended 30 September 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>
Assets	
Right-of-use assets (included under property and equipment)	4,321
Prepayments (included under other assets)	(269)
	4,052
Total assets	
	4,052
Liabilities	
Lease liabilities (included under other liabilities)	4,120
	4,120
Equity	
Retained earnings	(68)
	(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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
INFORMATION (UNAUDITED)

As at and for the period ended 30 September 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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
INFORMATION (UNAUDITED)

As at and for the period ended 30 September 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>	
As at 1 January 2019	4,276	45	4,321	4,120
Additions	1,057	69	1,126	1,105
Depreciation expense	(1,517)	(41)	(1,558)	-
Finance cost	-	-	-	75
Payments	-	-	-	(1,526)
As at 30 September 2019	3,816	73	3,889	3,774

The Group recognised rent expense from short-term leases of KD 10 thousand and leases of low-value assets of KD 21 thousand for the nine months ended 30 September 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.

2.3 Accounting policies for new transactions*Sukuk issued*

Sukuk issued are financial liabilities and are initially recognised at their fair value being the issue proceeds net of transaction costs and are subsequently measured at their amortized cost using the effective profit rate method.

Disclosures for the Bank's issued Sukuk are set out in Note 4.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

As at and for the period ended 30 September 2019

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>2019</i> <i>KD'000</i>	<i>(Audited)</i> <i>31 December</i> <i>2018</i> <i>KD'000</i>	<i>30 September</i> <i>2018</i> <i>KD'000</i>
Cash	2,651	3,727	2,216
Current account with the CBK	13,072	9,293	41,082
Current account with commercial banks	182,810	6,995	12,345
Total cash and balances with banks	198,533	20,015	55,643
Placements with the CBK whose original maturity is within 3 months	89,136	60,125	97,125
Placements with banks whose original maturity is within 3 months	244,561	149,786	43,361
Total cash and cash equivalents	532,230	229,926	196,129

Placements with banks represent placements with reputable financial institutions with appropriate credit-ratings assigned by international credit-rating agencies.

4 SUKUK ISSUED

On 24 September 2019, the Bank completed the series 1 issue of unsecured Sukuk (senior debt) amounting to US\$ 500 million with a tenor of up to 5 years maturing on 24 September 2024. Such sukuk has a fixed coupon rate of 2.982% per annum, payable semi-annually in arrears. The Sukuk is listed on the Irish Stock Exchange (Euronext Dublin) and NASDAQ Dubai.

5 BASIC AND DILUTED EARNINGS PER SHARE (EPS)

Basic EPS amounts are calculated by dividing the profit for the period attributable to ordinary equity holders of the Bank (after adjusting for profit on Perpetual Tier 1 Sukuk) by the weighted average number of ordinary shares outstanding during the period.

Diluted EPS amounts are calculated by dividing the profit attributable to ordinary equity holders of the Bank (after adjusting for profit on Perpetual Tier 1 Sukuk) by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares. As there are no dilutive instruments outstanding, basic and diluted earnings per share are identical.

	<i>Three months ended</i> <i>30 September</i>		<i>Nine months ended</i> <i>30 September</i>	
	<i>2019</i>	<i>(Restated)</i> <i>2018</i>	<i>2019</i>	<i>(Restated)</i> <i>2018</i>
Net profit for the period (KD'000)	5,643	2,929	12,143	8,127
Less: Profit payment on Perpetual Tier 1 Sukuk (KD'000)	(2,473)	(2,465)	(4,943)	(4,907)
	3,170	464	7,200	3,220
Weighted average number of shares outstanding (shares'000)	1,500,000	1,084,615	1,500,000	1,084,615
Basic and diluted earnings per share (fils)	2.11	0.43	4.80	2.97

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

As at and for the period ended 30 September 2019

6 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.

6.1 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 30 September</i>		<i>Nine months ended 30 September</i>	
	<i>2019 KD'000</i>	<i>2018 KD'000</i>	<i>2019 KD'000</i>	<i>2018 KD'000</i>
Salaries and short-term benefits	426	401	1,254	1,222
End of service benefits	40	35	112	105
	<u>466</u>	<u>436</u>	<u>1,366</u>	<u>1,327</u>

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

The Bank enters into transactions, arrangements and agreements involving senior management, board of directors' members, 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 and board of directors' members for the relevant financial period/ year which are included in the interim condensed consolidated statement of financial position:

	<i>30 September 2019 KD'000</i>	<i>31 December 2018 KD'000</i>	<i>30 September 2018 KD'000</i>
Financing facilities	1,511	1,469	1,465
Credit cards	7	7	7
Depositors' accounts	1,802	1,029	262

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

	<i>30 September 2019</i>	<i>31 December 2018</i>	<i>30 September 2018</i>
Financing facilities	7	5	6
Credit cards	6	7	7
Depositors' accounts	48	41	50

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
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As at and for the period ended 30 September 2019

6 RELATED PARTY DISCLOSURES (continued)**6.2 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 30 June</i>		<i>Nine months ended 30 June</i>	
	2019	2018	2019	2018
	KD'000	KD'000	KD'000	KD'000
Placements and finance income	24	19	65	65
Finance costs and distribution to depositors	32	14	53	27

6.3 Transactions with major shareholders:

In addition to transactions with key management personnel and board of directors' members, 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:

	30 September	31 December	30 September
	2019	2018	2018
	KD'000	KD'000	KD'000
Depositors' accounts	911,584	861,627	756,318

The number of major shareholders is as follows:

	30 September	31 December	30 September
	2019	2018	2018
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 30</i>		<i>Nine months ended 30</i>	
	<i>September</i>		<i>September</i>	
	2019	2018	2019	2018
	KD'000	KD'000	KD'000	KD'000
Finance costs and distributions to depositors	4,783	4,662	15,760	12,422

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. There have been guarantees amounted to KD 2,780 thousand received for related party receivables and no guarantees provided for related party payables during the period ended 30 September 2019.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
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As at and for the period ended 30 September 2019

7 COMMITMENTS AND CONTINGENT LIABILITIES

	<i>30 September</i> <i>2019</i> <i>KD'000</i>	<i>(Audited)</i> <i>31 December</i> <i>2018</i> <i>KD'000</i>	<i>30 September</i> <i>2018</i> <i>KD'000</i>
Acceptances and letters of credit	46,327	33,210	40,060
Letters of guarantee	106,185	91,209	95,016
Contingent liabilities	<u>152,512</u>	<u>124,419</u>	<u>135,076</u>
Capital commitments	<u>4,024</u>	<u>223</u>	<u>186</u>

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 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.

The following table presents operating income, results for the period and total assets information regarding the Group's reportable segments.

	<i>Corporate</i> <i>KD'000</i>	<i>Retail</i> <i>KD'000</i>	<i>Treasury</i> <i>KD'000</i>	<i>Investment</i> <i>KD'000</i>	<i>Other</i> <i>KD'000</i>	<i>Total</i> <i>KD'000</i>
<i>30 September 2019</i>						
Net operating income	<u>23,085</u>	<u>9,884</u>	<u>5,718</u>	<u>3,260</u>	<u>-</u>	<u>41,947</u>
Net profit (loss) for the period	<u>12,601</u>	<u>988</u>	<u>5,433</u>	<u>1,738</u>	<u>(8,617)</u>	<u>12,143</u>
Total assets	<u>1,693,232</u>	<u>379,543</u>	<u>590,826</u>	<u>371,110</u>	<u>49,970</u>	<u>3,084,681</u>
Total liabilities	<u>305,023</u>	<u>495,921</u>	<u>1,952,475</u>	<u>-</u>	<u>43,752</u>	<u>2,797,171</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
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As at and for the period ended 30 September 2019

8 SEGMENT INFORMATION (continued)

	<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>						
Net operating income	22,054	6,086	3,193	3,569	-	34,902
Net profit (loss) for the period as restated	9,555	514	3,250	2,449	(7,641)	8,127
Total assets (restated)	1,144,832	309,673	255,677	233,637	27,551	1,971,370
Total liabilities (restated)	145,833	348,477	1,264,139	-	33,226	1,791,675

9 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Fair value hierarchy

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

- ▶ **Level 1** - quoted (unadjusted) prices in an active market for identical assets and liabilities;
- ▶ **Level 2** - other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- ▶ **Level 3** - other techniques which use inputs which have a significant effect on the recorded fair value are not based on observable market data.

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

	<i>Total KD'000</i>	<i>Fair value measurement</i>		
		<i>Quoted prices in active markets (Level 1) KD'000</i>	<i>Significant observable inputs (Level 2) KD'000</i>	<i>Significant unobservable inputs (Level 3) KD'000</i>
<i>30 September 2019</i>				
Financial assets measured at fair value:				
<i>Financial assets at fair value through profit or loss</i>				
Quoted equity instruments	7,533	7,533	-	-
Funds (unquoted)	35,476	-	-	35,476
Other securities (unquoted)	10,770	-	-	10,770
	<u>53,779</u>	<u>7,533</u>	<u>-</u>	<u>46,246</u>
<i>Financial assets at fair value through other comprehensive income</i>				
Quoted Sukuk				
- Sovereign Sukuk	95,257	95,257	-	-
- Corporate Sukuk	117,713	117,713	-	-
	<u>212,970</u>	<u>212,970</u>	<u>-</u>	<u>-</u>
Unquoted equity instruments	5,492	-	-	5,492
	<u>218,462</u>	<u>212,970</u>	<u>-</u>	<u>5,492</u>
<i>Derivative financial instruments (Note 10)</i>				
Profit rate swaps	(1,080)	(1,080)	-	-

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

As at and for the period ended 30 September 2019

9 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

	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>31 December 2018</i>				
Financial assets measured at fair value:				
<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>
<i>Derivative financial instruments (Note 10)</i>				
Profit rate swaps	57	57	-	-
	<u>57</u>	<u>57</u>	<u>-</u>	<u>-</u>
<i>30 September 2018</i>				
Financial assets measured at fair value:				
<i>Financial assets at fair value through profit or loss</i>				
Quoted equity instruments	5,350	5,350	-	-
Funds (unquoted)	17,819	-	-	17,819
Other securities (unquoted)	7,369	-	-	7,369
	<u>30,538</u>	<u>5,350</u>	<u>-</u>	<u>25,188</u>
<i>Financial assets at fair value through other comprehensive income</i>				
Quoted Sukuk				
- Sovereign Sukuk	43,767	43,767	-	-
- Corporate Sukuk	97,411	97,411	-	-
	<u>141,178</u>	<u>141,178</u>	<u>-</u>	<u>-</u>
Unquoted Sukuk	2,000	-	-	2,000
Unquoted equity instruments	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	912	912	-	-
	<u>912</u>	<u>912</u>	<u>-</u>	<u>-</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

As at and for the period ended 30 September 2019

9 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

30 September 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>30 September</i> <i>2019</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)	26,430	13,734	(1,496)	(3,192)	35,476
Other securities (unquoted)	7,911	2,971	(112)	-	10,770
	<u>34,341</u>	<u>16,705</u>	<u>(1,608)</u>	<u>(3,192)</u>	<u>46,246</u>

Financial assets at fair value through other comprehensive income

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>
Financial assets at fair value through profit or loss					
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>

Financial assets at fair value through other comprehensive income

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>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

As at and for the period ended 30 September 2019

9 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)*30 September 2018*

	<i>At 1 January 2018</i>	<i>Additions</i>	<i>Sale/ redemption</i>	<i>Change in fair value</i>	<i>At 30 September 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	(215)	1,070	17,819
Other securities (unquoted)	7,295	74	-	-	7,369
	<u>23,603</u>	<u>730</u>	<u>(215)</u>	<u>1,070</u>	<u>25,188</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. The carrying value of financial assets and liabilities 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.

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 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 market risk exposure 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 parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying index such as profit rate, foreign currency rate or equity index.

Profit rate swaps relate to contracts taken out by the Bank with other counterparties to hedge one of its foreign currency deposits with an original maturity up to 3 years against profit rate fluctuations.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

As at and for the period ended 30 September 2019

10 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The Group performs hedge effectiveness testing at the end of the reporting period. Any hedge ineffectiveness is recognised in profit or loss. There was no hedge ineffectiveness during period in relation to the profit rate swaps.

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

	<i>30 September 2019</i>		<i>31 December 2018</i>		<i>30 September 2018</i>	
	<i>Negative fair value</i>	<i>Notional</i>	<i>Positive fair value</i>	<i>Notional</i>	<i>Positive fair value</i>	<i>Notional</i>
	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>
<i>Profit rate swaps (held as cash flow hedge)</i>	<u>(1,080)</u>	<u>120,840</u>	<u>57</u>	<u>120,840</u>	<u>912</u>	<u>120,840</u>

11 COMPARATIVE INFORMATION

During the comparative period ended 30 September 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 30 September 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>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 As at 30 September 2018</i>			
<i>Assets</i>			
Financing receivables	<u>1,452,694</u>	<u>(404)</u>	<u>1,452,290</u>
<i>Liabilities</i>			
Other liabilities	<u>32,223</u>	<u>1,003</u>	<u>33,226</u>
<i>Equity</i>			
Retained earnings	<u>6,101</u>	<u>(1,407)</u>	<u>4,694</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
INFORMATION (UNAUDITED)

As at and for the period ended 30 September 2019

11 COMPARATIVE INFORMATION (continued)*Interim condensed consolidated statement of profit or loss*

	<i>As previously reported KD'000</i>	<i>Effect of restatement KD'000</i>	<i>After restatement KD'000</i>
<i>Three months ended 30 September 2018</i>			
Provision for impairment and credit losses	(3,913)	(555)	(4,468)
Net profit for the period	3,484	(555)	2,929
	<u> </u>	<u> </u>	<u> </u>
Basic and diluted earnings per share (fils)	1.02		0.43
	<u> </u>		<u> </u>
<i>Nine months ended 30 September 2018</i>			
Provision for impairment and credit losses	(12,764)	(555)	(13,319)
Net profit for the period	8,682	(555)	8,127
	<u> </u>	<u> </u>	<u> </u>
Basic and diluted earnings per share (fils)	3.78		2.97
	<u> </u>		<u> </u>

The above retrospective application did not have a material effect on the Group's previously reported profit for the three-months and six-months ended 31 March 2018 and 30 June 2018, respectively.

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.