

WARBA BANK K.S.C.P.
INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION
(UNAUDITED)
30 JUNE 2020



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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 June 2020, and the related interim condensed consolidated statement of profit or loss and interim condensed consolidated statement of comprehensive income for the three-month and six-month period then ended and the related interim condensed consolidated statement of changes in equity and interim condensed consolidated statement of cash flows for the six-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.

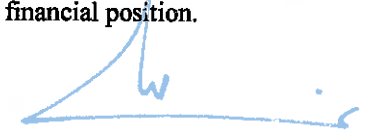
Conclusion

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 six-month period ended 30 June 2020 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 six-month period ended 30 June 2020 that might have had a material effect on the business of the Bank or on its financial position.



BADER A. AL-ABDULJADER
LICENCE NO. 207-A
EY
(AL AIBAN, AL OSAIMI & PARTNERS)



DR. RASHEED M. AL - QENAE
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OF KPMG SAFI AL-MUTAWA & PARTNERS
MEMBER FIRM OF KPMG INTERNATIONAL

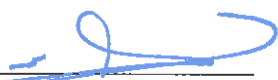
13 August 2020
Kuwait

Warba Bank K.S.C.P.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

As at 30 June 2020

		30 June 2020 KD'000	(Audited) 31 December 2019 KD'000	30 June 2019 KD'000
	Notes			
ASSETS				
Cash and bank balances	3	44,172	102,544	183,600
Placements with banks and the CBK		339,209	225,703	222,954
Financing receivables		2,390,719	2,261,974	1,930,682
Financial assets at fair value through profit or loss	11	75,909	55,895	45,138
Financial assets at fair value through other comprehensive income	11	343,896	323,062	179,603
Investment in joint ventures		103,454	91,007	77,481
Investment properties		19,400	20,798	23,255
Other assets		54,154	39,897	35,422
Property and equipment		25,047	22,803	22,176
TOTAL ASSETS		3,395,960	3,143,683	2,720,311
LIABILITIES AND EQUITY				
LIABILITIES				
Due to banks and other financial institutions		715,012	953,303	791,380
Depositors' accounts		2,075,285	1,705,811	1,596,173
Sukuk issued	4	304,706	152,179	-
Other liabilities		42,214	38,030	51,092
TOTAL LIABILITIES		3,137,217	2,849,323	2,438,645
EQUITY				
Share capital	5	157,500	150,000	150,000
Share premium		40,000	40,000	40,000
Statutory reserve		3,098	3,098	1,353
Fair value reserve		(696)	7,211	2,206
Foreign currency translation reserve		511	127	3
(Accumulated losses) retained earnings		(18,033)	10,061	11,741
Proposed distributions	5	182,380	210,497	205,303
		-	7,500	-
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE BANK		182,380	217,997	205,303
Perpetual Tier 1 Sukuk		76,363	76,363	76,363
TOTAL EQUITY		258,743	294,360	281,666
TOTAL LIABILITIES AND EQUITY		3,395,960	3,143,683	2,720,311


Abdulwahab A. Al Houti
Chairman


Shaheen H. Al Ghanem
Chief Executive Officer

The accompanying notes 1 to 13 form an integral part of this interim condensed consolidated financial information.

to

Warba Bank K.S.C.P.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
(UNAUDITED)

For the period ended 30 June 2020

	Notes	Three months ended 30 June		Six months ended 30 June	
		2020 KD'000	2019 KD'000	2020 KD'000	2019 KD'000
Placements and finance income		26,930	26,882	57,993	51,255
Finance costs and distribution to depositors		(16,849)	(15,238)	(36,179)	(28,196)
Net finance income		10,081	11,644	21,814	23,059
Net investment income (loss)		1,197	(751)	4,081	1,038
Net fee and commission income		1,250	999	2,135	2,200
Other income		103	52	144	164
Foreign exchange (loss) gain		(604)	719	(1,930)	464
Net operating income		12,027	12,663	26,244	26,925
Staff costs		(4,557)	(3,592)	(8,871)	(7,078)
General and administrative expenses		(743)	(1,123)	(2,173)	(1,927)
Depreciation expense		(1,095)	(748)	(1,937)	(1,513)
Net operating expenses		(6,395)	(5,463)	(12,981)	(10,518)
Net operating profit before provision for impairment and credit losses		5,632	7,200	13,263	16,407
Provision for impairment and credit losses	6	(22,700)	(4,393)	(28,139)	(9,595)
(Loss) profit before tax		(17,068)	2,807	(14,876)	6,812
Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)		20	(25)	-	(61)
National Labour Support Tax (NLST)		63	(73)	-	(179)
Zakat		25	(30)	-	(72)
NET (LOSS) PROFIT FOR THE PERIOD		(16,960)	2,679	(14,876)	6,500
BASIC AND DILUTED (LOSS) EARNINGS PER SHARE	7	(10.77) fils	1.70 fils	(11.03) fils	2.56 fils

The accompanying notes 1 to 13 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 June 2020

	<i>Three months ended</i>		<i>Six months ended</i>	
	<i>30 June</i>		<i>30 June</i>	
	<i>2020</i>	<i>2019</i>	<i>2020</i>	<i>2019</i>
	<i>KD'000</i>	<i>KD'000</i>	<i>KD'000</i>	<i>KD'000</i>
NET (LOSS) PROFIT FOR THE PERIOD	(16,960)	2,679	(14,876)	6,500
Other comprehensive income (loss)				
<i>Other comprehensive income (loss) that will be reclassified to profit or loss:</i>				
<i>Debt instruments at fair value through other comprehensive income:</i>				
Net change in fair value	15,337	3,353	(7,232)	7,618
Changes in allowance for expected credit losses	(370)	185	(565)	376
Reclassification adjustment on sale	19	10	(110)	34
Net gains/(losses) on debt instruments at fair value through other comprehensive income	14,986	3,548	(7,907)	8,028
<i>Cash flow hedges:</i>				
Hedging net losses	-	(841)	-	(1,176)
Movement on cash flow hedges	-	(841)	-	(1,176)
<i>Foreign currency translation:</i>				
Exchange differences on translation of foreign operations	(117)	(415)	384	(76)
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	14,869	2,292	(7,523)	6,776
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	(2,091)	4,971	(22,399)	13,276

The accompanying notes 1 to 13 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 June 2020

	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 (accumulated losses) KD'000	Sub-total KD'000	Proposed distributions 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 2020	150,000	40,000	3,098	7,211	127	10,061	210,497	7,500	217,997	76,363	294,360
Net loss for the period	-	-	-	-	-	(14,876)	(14,876)	-	(14,876)	-	(14,876)
Other comprehensive (loss) income	-	-	-	(7,907)	384	-	(7,523)	-	(7,523)	-	(7,523)
Total comprehensive (loss) income for the period	-	-	-	(7,907)	384	(14,876)	(22,399)	-	(22,399)	-	(22,399)
Issue of bonus shares (Note 5)	7,500	-	-	-	-	-	7,500	(7,500)	-	-	-
Profit paid on Perpetual Tier 1 Sukuk	-	-	-	-	-	(2,492)	(2,492)	-	(2,492)	-	(2,492)
Modification loss on payment deferral program (Note 13)	-	-	-	-	-	(10,726)	(10,726)	-	(10,726)	-	(10,726)
At 30 June 2020	157,500	40,000	3,098	(696)	511	(18,033)	182,380	-	182,380	76,363	258,743
As at 1 January 2019 as previously reported (audited)	150,000	40,000	1,353	(4,646)	79	7,779	194,565	-	194,565	76,363	270,928
Impact of adopting IFRS 16 at 1 January 2019	-	-	-	-	-	(68)	(68)	-	(68)	-	(68)
Restated opening balance under IFRS 16	150,000	40,000	1,353	(4,646)	79	7,711	194,497	-	194,497	76,363	270,860
Net profit for the period	-	-	-	-	-	6,500	6,500	-	6,500	-	6,500
Other comprehensive income (loss)	-	-	-	6,852	(76)	-	6,776	-	6,776	-	6,776
Total comprehensive income (loss) for the period	-	-	-	6,852	(76)	6,500	13,276	-	13,276	-	13,276
Profit paid on Perpetual Tier 1 Sukuk	-	-	-	-	-	(2,470)	(2,470)	-	(2,470)	-	(2,470)
At 30 June 2019	150,000	40,000	1,353	2,206	3	11,741	205,303	-	205,303	76,363	281,666

The accompanying notes 1 to 13 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 June 2020

	<i>Six months ended</i>	
	<i>30 June</i>	
Note	2020	2019
	KD'000	KD'000
OPERATING ACTIVITIES		
Net (loss) profit for the period	(14,876)	6,500
<i>Adjustments for:</i>		
Realised (gain) loss on sale of debt instruments at FVOCI	(110)	34
Realised gain on sale of financial assets at FVPL	(2,101)	-
Dividend income from financial assets	(770)	(785)
Share of results from investments in joint ventures	(2,889)	(1,666)
Net rental income from investment properties	(466)	(613)
Fair value adjustment to investment properties	903	(386)
Other investment income	(332)	(407)
Fair value loss from financial assets FVPL	1,684	2,785
Provision for employees' end of service benefits	475	408
Depreciation expense	1,937	1,513
Provision for impairment and credit losses	28,139	9,595
	11,594	16,978
<i>Changes in operating assets and liabilities:</i>		
Placements with banks and the CBK	7,942	(19,841)
Financing receivables	(168,205)	(333,423)
Other assets	(13,986)	(9,614)
Due to banks and other financial institutions	(238,348)	(43,684)
Depositors' accounts	369,474	542,995
Other liabilities	(1,992)	11,481
Net cash flows (used in) from operating activities	(33,521)	164,892
INVESTING ACTIVITIES		
Purchase of financial assets at FVPL	(31,083)	(6,671)
Proceeds from sale/ redemption of financial assets at FVPL	11,434	263
Purchase of financial assets at FVOCI	(84,986)	(53,810)
Proceeds from sale of financial assets at FVOCI	61,642	30,278
Additions to investment in joint ventures	(11,507)	(25,073)
Purchase of property and equipment	(2,801)	(1,010)
Dividends received from financial assets	822	771
Other investment income received	332	407
Distributions received from joint ventures	2,891	1,679
Rental income received	545	827
Net cash flows used in investing activities	(52,711)	(52,339)
FINANCING ACTIVITIES		
Profit paid to holders on Perpetual Tier 1 Sukuk	(2,492)	(2,470)
Payment of lease liabilities	(734)	-
Proceeds from Sukuk issued	152,527	-
Net cash flows from (used in) financing activities	149,301	(2,470)
NET INCREASE IN CASH AND CASH EQUIVALENTS	63,069	110,083
Cash and cash equivalents at 1 January	283,637	229,926
CASH AND CASH EQUIVALENTS AT 30 JUNE	346,706	340,009

The accompanying notes 1 to 13 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 June 2020

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 April 2020 approved the consolidated financial statements for the year ended 31 December 2019.

This interim condensed consolidated financial information as at and for the six months ended 30 June 2020 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 six months ended 30 June 2020 has been approved for issue in accordance with a resolution of the Board of Directors on 29 July 2020.

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 six months ended 30 June 2020 has been prepared in accordance with IAS 34 *Interim Financial Reporting*, except as noted below.

The interim condensed consolidated financial information have been 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; including the consequential impact on related disclosures. These regulations also require adoption of all other requirements of International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (“IASB”).

Further, during the period ended 30 June 2020, CBK has extended their regulations to require that modification losses of financial assets arising from payment holidays provided to customers in response to the economic impact of Covid-19 are to be recognised in retained earnings instead of profit or loss.

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 2019.

The interim condensed consolidated financial information provides comparative information in respect of the previous period. Certain comparative information has been reclassified and represented to conform to classification in the current period. Such reclassification has been made to improve the quality of information presented.

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 followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2019, except for the adoption of new standards effective as of 1 January 2020 and the accounting for modification loss in response to Covid-19 in accordance with CBK’s instructions as explained above. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Several amendments and interpretations apply for the first time in 2020, 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 June 2020

**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)

Amendments to IFRS 3: *Definition of a Business*

The amendment to IFRS 3 clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Furthermore, it clarified that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the interim condensed consolidated financial information of the Group, but may impact future periods should the Group enter into any business combinations.

Amendments to IFRS 7, IFRS 9 and IAS 39: *Interest Rate Benchmark Reform*

The amendments to IFRS 9 and IAS 39 *Financial Instruments: Recognition and Measurement* provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments had no impact on the interim condensed consolidated financial information of the Group as it does not have any interest rate hedge relationships.

Amendments to IAS 1 and IAS 8: *Definition of Material*

The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the interim condensed consolidated financial information of, nor is there expected to be any future impact to the Group.

Conceptual Framework for Financial Reporting issued on 29 March 2018

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards.

The revised Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts.

These amendments had no 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 June 2020

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:

	30 June 2020 KD'000	<i>(Audited)</i> 31 December 2019 KD'000	30 June 2019 KD'000
Cash	9,642	3,725	4,289
Current account with the CBK	2,841	10,615	38,779
Current account with commercial banks	31,689	88,204	140,532
Total cash and bank balances	44,172	102,544	183,600
Placements with the CBK whose original maturity is within 3 months	24,040	27,101	89,119
Placements with banks whose original maturity is within 3 months	278,494	153,992	67,290
Total cash and cash equivalents	346,706	283,637	340,009

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.

On 17 June 2020, the Bank completed the issuance of an unsecured Sukuk (senior debt) amounting to KD 150 million with a tenor of up to 5 years maturing on 17 June 2025. Such sukuk has a coupon rate of 1% per annum over the CBK discount rate, payable semi-annually in arrears. The Sukuk is listed on the Irish Stock Exchange (Euronext Dublin).

5 SHARE CAPITAL AND DISTRIBUTIONS MADE

The authorised, issued, and fully paid share capital as at 30 June 2020 comprise of 1,575,000 thousand shares (31 December 2019: 1,500,000 thousand shares and 30 June 2019: 1,500,000 thousand shares) of 100 fils each.

The ordinary general assembly meeting (“AGM”) of the Bank’s shareholders held on 20 April 2020 approved to a bonus shares issue of 5% (2018: Nil%) of the authorised, issued, and fully paid share capital for the year ended 31 December 2019. No cash dividends were declared for the year ended 31 December 2019 (2018: Nil).

The extra-ordinary general assembly (“EGM”) of the Bank’s shareholders held on 27 April 2020 approved the increase of Bank’s authorised, issued, and fully paid share capital by issuing 75,000 thousand bonus shares at 5% of the authorised and paid-up share capital (i.e. 5 shares for each 100 shares) amounting to KD 7,500 thousand to the shareholders registered in the Bank’s records as at the end of the record date scheduled on 4 June 2020.

6 PROVISION FOR IMPAIRMENT AND CREDIT LOSSES

	<i>Three months ended</i> 30 June		<i>Six months ended</i> 30 June	
	2020 KD'000	2019 KD'000	2020 KD'000	2019 KD'000
Provision charge for credit facilities – specific	20,504	2,912	25,173	6,061
Provision charge for credit facilities – general	2,782	1,697	3,521	3,278
Expected credit losses charge	(586)	(216)	(555)	256
	22,700	4,393	28,139	9,595

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

As at and for the period ended 30 June 2020

7 BASIC AND DILUTED (LOSS) EARNINGS PER SHARE

Basic (loss) earnings per share amounts are calculated by dividing the (loss) profit for the period attributable to ordinary equity holders of the Bank adjusted for profit paid on Perpetual Tier 1 Sukuk by the weighted average number of ordinary shares outstanding during the period. Diluted (loss) earnings per share is calculated by dividing the (loss) profit attributable to ordinary equity holders of the Bank adjusted for profit paid 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 (loss) earnings per share are identical.

	<i>Three months ended 30 June</i>		<i>Six months ended 30 June</i>	
	<i>2020</i>	<i>2019</i>	<i>2020</i>	<i>2019</i>
Net (loss) profit for the period (KD'000)	(16,960)	2,679	(14,876)	6,500
Less: profit payment on Perpetual Tier 1 Sukuk (KD'000)	-	-	(2,492)	(2,470)
	(16,960)	2,679	(17,368)	4,030
Weighted average number of shares outstanding (shares'000)	1,575,000	1,575,000	1,575,000	1,575,000
Basic and diluted (loss) earnings per share (fils)	(10.77)	1.70	(11.03)	2.56

The comparative basic and diluted earnings per share have been restated to reflect the impact of bonus shares issued in 2020 (Note 5).

8 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.

8.1 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</i>		<i>Six months ended</i>	
	<i>30 June</i>	<i>30 June</i>	<i>30 June</i>	<i>30 June</i>
	<i>2020</i>	<i>2019</i>	<i>2020</i>	<i>2019</i>
	<i>KD'000</i>	<i>KD'000</i>	<i>KD'000</i>	<i>KD'000</i>
Salaries and short-term benefits	457	416	885	828
End of service benefits	47	36	93	72
	504	452	978	900

The AGM of the shareholders of the Bank for the year ended 31 December 2019 held on 20 April 2020 approved the directors' fees proposed for the year ended 31 December 2019 of KD 125 thousand.

8.2 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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

As at and for the period ended 30 June 2020

8 RELATED PARTY DISCLOSURES (continued)

8.2 Transactions with Bank's key management personnel and board of directors' members: (continued)

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:

	30 June 2020 KD'000	<i>(Audited)</i> 31 December 2019 KD'000	30 June 2019 KD'000
Financing facilities	1,484	1,439	1,499
Credit cards	4	4	7
Depositors' accounts	1,720	6,810	1,994

The transactions with related parties included under the contingent liabilities are as follows:

	30 June 2020 KD'000	<i>(Audited)</i> 31 December 2019 KD'000	30 June 2019 KD'000
Letter of guarantees	4	4	-

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

	30 June 2020	<i>(Audited)</i> 31 December 2019	30 June 2019
Financing facilities	8	6	6
Credit cards	5	5	6
Depositors' accounts	46	44	46
Letter of guarantees	1	1	-

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

	<u>Three months ended 30 June</u>		<u>Six months ended 30 June</u>	
	2020	2019	2020	2019
	KD'000	KD'000	KD'000	KD'000
Placements and finance income	18	19	39	41
Finance costs and distribution to depositors	14	16	31	21

8.3 Transactions with major shareholders and other related parties:

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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

As at and for the period ended 30 June 2020

8 RELATED PARTY DISCLOSURES (continued)

8.3 Transactions with major shareholders and other related parties: (continued)

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

	<i>Outstanding balances as at</i>				
	<i>Major shareholders</i>	<i>Other related parties</i>	<i>30 June 2020</i>	<i>(Audited)</i>	
				<i>30 June 2019</i>	<i>30 June 2019</i>
	<i>KD'000</i>	<i>KD'000</i>	<i>KD'000</i>	<i>KD'000</i>	<i>KD'000</i>
Depositors' accounts	709,298	799	710,097	872,861	870,761

The number of major shareholders and other related parties is as follows:

	<i>No. of major shareholders</i>	<i>No. of other related parties</i>
30 June 2020		
Depositors' accounts	2	30
31 December 2019 (audited)		
Depositors' accounts	2	30
30 June 2019		
Depositors' accounts	2	-

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

For the six months ended

	<i>Transactions values during the period ended</i>			
	<i>Major shareholders</i>	<i>Other related parties</i>	<i>30 June 2020</i>	<i>30 June 2019</i>
				<i>KD'000</i>
Finance costs and distributions to depositors	7,181	-	7,181	10,977

For the three months ended

	<i>Transactions values during the period ended</i>			
	<i>Major shareholders</i>	<i>Other related parties</i>	<i>30 June 2020</i>	<i>30 June 2019</i>
				<i>KD'000</i>
Finance costs and distributions to depositors	3,191	-	3,191	5,265

Outstanding balances at period-end are in the ordinary course of business. The profit rates charged to, and by, related parties are at normal commercial rates. Except for guarantees of KD 2,679 thousand received for related party receivables, there are no guarantees provided for related party payables during the period ended 30 June 2020.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

As at and for the period ended 30 June 2020

9 COMMITMENTS AND CONTINGENT LIABILITIES

	<i>30 June</i> <i>2020</i> <i>KD'000</i>	<i>(Audited)</i> <i>31 December</i> <i>2019</i> <i>KD'000</i>	<i>30 June</i> <i>2019</i> <i>KD'000</i>
Acceptances and letters of credit	38,654	52,210	32,765
Letters of guarantee	123,236	115,030	105,143
Contingent liabilities	161,890	167,240	137,908
Capital commitments	106,740	28,816	853

10 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 net operating income (loss), profit (loss) for the period, total assets and total liabilities information in respect of the Bank's reportable segments:

	<i>30 June 2020</i>					
	<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>
Operating income (loss)	19,029	5,868	(1,096)	2,443	-	26,244
Net (loss) profit	(9,006)	193	(1,264)	2,175	(6,974)	(14,876)
Total assets	1,999,322	391,398	578,877	346,795	79,568	3,395,960
Total liabilities	405,811	606,123	2,083,069	-	42,214	3,137,217

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

As at and for the period ended 30 June 2020

10 SEGMENT INFORMATION (continued)

	30 June 2019					
	Corporate KD'000	Retail KD'000	Treasury KD'000	Investment KD'000	Other KD'000	Total KD'000
Operating income (loss)	20,474	5,402	1,566	(517)	-	26,925
Net profit (loss)	11,225	931	1,546	(1,629)	(5,573)	6,500
Total assets	1,570,656	360,026	271,745	276,686	241,198	2,720,311
Total liabilities	263,155	451,081	1,673,317	-	51,092	2,438,645

11 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:

	Fair value measurement			
	Total KD'000	Quoted prices in active markets (Level 1) KD'000	Significant observable inputs (Level 2) KD'000	Significant unobservable inputs (Level 3) KD'000
30 June 2020				
<i>Assets measured at fair value on a recurring basis</i>				
<i>Financial assets at FVPL</i>				
Quoted equity instruments	13,376	13,376	-	-
Funds (unquoted)	46,659	-	-	46,659
Other securities (unquoted)	15,874	-	-	15,874
	75,909	13,376	-	62,533
<i>Financial assets at FVOCI</i>				
Quoted Sukuk				
- Sovereign Sukuk	223,209	223,209	-	-
- Corporate Sukuk	108,841	108,841	-	-
	332,050	332,050	-	-
Unquoted Sukuk	6,341	-	-	6,341
Unquoted equity instruments	5,505	-	-	5,505
	343,896	332,050	-	11,846
<i>Derivative financial instruments (Note 12)</i>				
Profit rate swaps	-	-	-	-

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

As at and for the period ended 30 June 2020

11 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

	<i>Total</i> <i>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>31 December 2019</i>				
<i>Assets measured at fair value on a recurring basis</i>				
<i>Financial assets at FVPL</i>				
Quoted equity instruments	7,536	7,536	-	-
Funds (unquoted)	35,267	-	-	35,267
Other securities (unquoted)	13,092	-	-	13,092
	<u>55,895</u>	<u>7,536</u>	<u>-</u>	<u>48,359</u>
<i>Financial assets at FVOCI</i>				
<i>Quoted Sukuk</i>				
- Sovereign Sukuk	185,015	185,015	-	-
- Corporate Sukuk	126,144	126,144	-	-
	<u>311,159</u>	<u>311,159</u>	<u>-</u>	<u>-</u>
Unquoted Sukuk	6,398	-	-	6,398
Unquoted equity instruments	5,505	-	-	5,505
	<u>323,062</u>	<u>311,159</u>	<u>-</u>	<u>11,903</u>
<i>Derivative financial instruments (Note 12)</i>				
Profit rate swaps	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>30 June 2019</i>				
<i>Assets measured at fair value on a recurring basis</i>				
<i>Financial assets at FVPL</i>				
Quoted equity instruments	7,653	7,653	-	-
Funds (unquoted)	27,956	-	-	27,956
Other securities (unquoted)	9,529	-	-	9,529
	<u>45,138</u>	<u>7,653</u>	<u>-</u>	<u>37,485</u>
<i>Financial assets at FVOCI</i>				
<i>Quoted Sukuk</i>				
- Sovereign Sukuk	68,260	68,260	-	-
- Corporate Sukuk	99,743	99,743	-	-
	<u>168,003</u>	<u>168,003</u>	<u>-</u>	<u>-</u>
Unquoted Sukuk	6,108	-	-	6,108
Unquoted equity instruments	5,492	-	-	5,492
	<u>179,603</u>	<u>168,003</u>	<u>-</u>	<u>11,600</u>
<i>Derivative financial instruments (Note 12)</i>				
Profit rate swaps	(1,119)	(1,119)	-	-
	<u>(1,119)</u>	<u>(1,119)</u>	<u>-</u>	<u>-</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

As at and for the period ended 30 June 2020

11 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Movements in Level 3 financial instruments measured at fair value

The following tables show the reconciliation of the opening and closing amounts of Level 3 financial assets measured at fair value:

30 June 2020

	At 1 January 2020	Additions	Sales/ redemptions	Change in fair value	Exchange rate differences	At 30 June 2020
	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000
<i>Financial assets at FVPL</i>						
Funds (unquoted)	35,267	21,792	(9,333)	(1,567)	500	46,659
Other securities (unquoted)	13,092	2,528	(53)	77	230	15,874
	48,359	24,320	(9,386)	(1,490)	730	62,533
<i>Financial assets at FVOCI</i>						
Unquoted Sukuk	6,398	-	-	(157)	100	6,341
Unquoted equity instruments	5,505	-	-	-	-	5,505
	11,903	-	-	(157)	100	11,846

31 December 2019

	At 1 January 2019	Additions	Sales/ redemptions	Change in fair value	Exchange rate differences	At 31 December 2019
	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000
<i>Financial assets at FVPL</i>						
Funds (unquoted)	26,430	14,078	(2,225)	(2,955)	(61)	35,267
Other securities (unquoted)	7,911	5,285	(112)	18	(10)	13,092
	34,341	19,363	(2,337)	(2,937)	(71)	48,359
<i>Financial assets at FVOCI</i>						
Unquoted Sukuk	8,108	-	(2,000)	295	(5)	6,398
Unquoted equity instruments	5,492	-	-	13	-	5,505
	13,600	-	(2,000)	308	(5)	11,903

30 June 2019

	At 1 January 2019	Additions	Sales/ redemptions	Change in fair value	Exchange rate differences	At 30 June 2019
	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000
<i>Financial assets at FVPL</i>						
Funds (unquoted)	26,430	4,956	(151)	(3,268)	(11)	27,956
Other securities (unquoted)	7,911	1,730	(112)	-	-	9,529
	34,341	6,686	(263)	(3,268)	(11)	37,485
<i>Financial assets at FVOCI</i>						
Unquoted Sukuk	8,108	-	(2,000)	-	-	6,108
Unquoted equity instruments	5,492	-	-	-	-	5,492
	13,600	-	(2,000)	-	-	11,600

There were no transfers between any levels of the fair value hierarchy during 2020 or 2019.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

As at and for the period ended 30 June 2020

11 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The valuation techniques and inputs used in this interim condensed consolidated financial information are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2019.

The fair value of financial instruments classified as level 3 are, in certain circumstances, measured using valuation techniques that incorporate assumptions that are not evidenced by the prices from observable current market transactions in the same instrument and are not based on observable market data. The Group employs valuation techniques, depending on the instrument type and available market data. For example, in the absence of active market, an investment's fair value is estimated on the basis of an analysis of the investee's financial position and results, risk profile and other factors. Favourable and unfavourable changes in the value of financial instruments are determined on the basis of changes in the value of the instruments as a result of varying the levels of the unobservable parameters, quantification of which is judgmental. The management assessed that the impact on profit or loss or other comprehensive income would be immaterial if the relevant risk variables used to fair value the financial instruments classified as Level 3 were altered by 5 percent.

For other financial assets and financial liabilities carried at amortised cost, the carrying value is not significantly different from their fair value as most of these assets and liabilities are of short-term maturity or are re-priced immediately based on market movement in profit rates.

12 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.

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:

	30 June 2020		(Audited) 31 December 2019		30 June 2019	
	Fair value KD 000's	Notional KD 000's	Fair value KD 000's	Notional KD 000's	Negative fair value KD 000's	Notional KD 000's
Profit rate swaps (held as cash flow hedge)	-	-	-	-	(1,119)	120,840

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
INFORMATION (UNAUDITED)

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12 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

During the prior year ended 31 December 2019, the Group's hedging relationships with respect to the profit rate swaps have been terminated and accordingly, the cumulative changes in fair value previously recognised in OCI relating to the hedging instrument have been recycled to profit or loss as a reclassification adjustment during the year then ended.

As at 30 June 2020, the Group has no qualifying hedging relationships.

13 IMPACT OF COVID-19

The Coronavirus ("COVID-19") pandemic has spread across various geographies globally, causing disruption to business and economic activities. COVID-19 has brought about uncertainties in the global economic environment, and governments and authorities have announced a host of support measures to counter possible adverse implications and contain or delay the spread of the virus.

The Group is closely monitoring the situation and has activated its Business Continuity Planning and risk management practices to manage the potential business disruption COVID-19 outbreak may have on its operations and financial performance.

During the financial reporting period, oil prices have witnessed unprecedented volatility. The uncertainties caused by COVID-19, and the volatility in oil prices have required the Group to update the inputs and assumptions used for the determination of Expected Credit Losses ("ECLs") as at 30 June 2020. ECLs were estimated based on a range of forecast economic conditions as at that date and considering that the situation is fast evolving, the Group has considered the impact of higher volatility in the forward-looking macro-economic factors, when determining the severity and likelihood of economic scenarios for ECL determination. Further, Loss Given Default (LGD) and Exposure at Default (EAD) estimates have also been critically assessed. This assessment has considered several aspects including, the cash situation of clients, the value of collateral and the enforceability of guarantees.

Kuwait's authorities announced certain measures to provide support to the customers which include payment holidays and funding at concessional terms to certain customers in the consumer and instalment segment.

In accordance with IASB guidance, the extension of payment relief does not automatically trigger a Significant Increase in Credit Risk (SICR) and a stage migration for the purpose of calculating expected credit losses, as these measures are being made available to assist borrowers affected by COVID-19 outbreak to resume regular payments. The Group has given specific consideration to the relevant impact of COVID-19 on the qualitative and quantitative factors when determining the significant increase in credit risk and assessing the indicators of impairment for the exposures in potentially affected sectors.

The Group has considered potential impacts of the current economic volatility in determination of the reported amounts of the Group's financial and non-financial assets and these are considered to represent management's best assessment based on available or observable information. Markets however remain volatile and the recorded amounts remain sensitive to market fluctuations.

Further, the Bank decided to postpone monthly payments for instalments of consumer financing, instalment financing and credit cards for all customers for a period of six months effective from April 2020 with waiving additional profits and charges during this period ("payment deferral program"). As a result, the Bank recalculated the gross carrying amount based on the revised cash flows of the financial assets and recognised a modification loss of KD 10.726 million charged to retained earnings in accordance with CBK's instructions as set out in Note 2.