

WARBA BANK K.S.C.P.
INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION
(UNAUDITED)
30 JUNE 2022



Building a better
working world

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REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION TO THE BOARD OF DIRECTORS OF WARBA BANK K.S.C.P.

Introduction

We have reviewed the interim condensed consolidated statement of financial position of Warba Bank K.S.C.P. (the “Bank”) and its subsidiaries (collectively the “Group”) as at 30 June 2022, 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 2022 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 2022 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
LICENSE NO. 130 - A
OF KPMG SAFI AL-MUTAWA & PARTNERS
MEMBER FIRM OF KPMG INTERNATIONAL

27 July 2022
Kuwait

Warba Bank K.S.C.P.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

As at 30 June 2022

		30 June 2022	(Audited) 31 December 2021	30 June 2021
	Notes	KD'000	KD'000	KD'000
ASSETS				
Cash and bank balances	3	131,904	79,856	91,794
Placements with banks and the CBK		515,280	437,043	381,453
Financing receivables	4	2,826,686	2,473,516	2,480,989
Financial assets at fair value through profit or loss	12	129,721	128,898	108,419
Financial assets at fair value through other comprehensive income	12	239,290	263,753	280,759
Investment in joint ventures		99,233	104,891	105,283
Investment properties		16,135	18,715	30,160
Other assets		77,803	55,598	48,212
Property and equipment		17,511	17,942	18,661
TOTAL ASSETS		4,053,563	3,580,212	3,545,730
LIABILITIES AND EQUITY				
LIABILITIES				
Due to banks and other financial institutions		661,757	512,571	607,921
Depositors' accounts		2,659,337	2,288,918	2,302,604
Sukuk issued	5	304,154	302,024	301,314
Other liabilities		62,353	60,900	59,209
TOTAL LIABILITIES		3,687,601	3,164,413	3,271,048
EQUITY				
Share capital		200,000	200,000	157,500
Share premium		80,375	80,375	40,000
Statutory reserve		4,777	4,777	3,098
Fair value reserve		(13,052)	1,607	(6,205)
Foreign currency translation reserve		934	(112)	345
Retained earnings		17,120	7,882	3,581
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE BANK		290,154	294,529	198,319
Perpetual Tier 1 Sukuk	6	75,808	121,270	76,363
TOTAL EQUITY		365,962	415,799	274,682
TOTAL LIABILITIES AND EQUITY		4,053,563	3,580,212	3,545,730

Hamad M. Al Sayer
Chairman

Shaheen H. Al Ghanem
Chief Executive Officer

The accompanying notes 1 to 14 form an integral part of this interim condensed consolidated financial information.

Warba Bank K.S.C.P.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
(UNAUDITED)

For the period ended 30 June 2022

	Notes	Three months ended 30 June		Six months ended 30 June	
		2022 KD'000	2021 KD'000	2022 KD'000	2021 KD'000
Placements and finance income		28,230	24,026	52,418	47,051
Finance costs and distribution to depositors		(16,043)	(12,092)	(28,532)	(23,678)
Net finance income		12,187	11,934	23,886	23,373
Net investment income		6,933	7,413	13,607	13,647
Net fee and commission income		1,858	774	3,355	1,370
Other income		235	168	574	276
Foreign exchange (loss) gain		(309)	325	(210)	1,645
Net operating income		20,904	20,614	41,212	40,311
Staff costs		(5,313)	(4,764)	(10,805)	(9,275)
General and administrative expenses		(1,274)	(994)	(2,250)	(1,803)
Depreciation expense		(1,658)	(1,418)	(3,162)	(2,878)
Net operating expenses		(8,245)	(7,176)	(16,217)	(13,956)
Net operating profit before provision for impairment and credit losses		12,659	13,438	24,995	26,355
Provision for impairment and credit losses	7	(7,295)	(10,008)	(12,557)	(20,011)
Profit before tax		5,364	3,430	12,438	6,344
Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)		(48)	(31)	(112)	(57)
National Labour Support Tax (NLST)		(136)	(89)	(321)	(165)
Zakat		(55)	(36)	(129)	(66)
NET PROFIT FOR THE PERIOD		5,125	3,274	11,876	6,056
BASIC AND DILUTED EARNINGS PER SHARE (EPS)	8	1.80 fils	1.95 fils	4.44 fils	2.14 fils

The accompanying notes 1 to 14 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 2022

	<i>Three months ended</i>		<i>Six months ended</i>	
	<i>30 June</i>		<i>30 June</i>	
	<i>2022</i>	<i>2021</i>	<i>2022</i>	<i>2021</i>
	<i>KD'000</i>	<i>KD'000</i>	<i>KD'000</i>	<i>KD'000</i>
NET PROFIT FOR THE PERIOD	5,125	3,274	11,876	6,056
Other comprehensive (loss) income				
<i>Other comprehensive (loss) income 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	(6,611)	(7,718)	(15,123)	(7,291)
Changes in allowance for expected credit losses	140	396	243	363
Reclassification adjustment on sale	220	(797)	221	(953)
Net losses on debt instruments at fair value through other comprehensive income	(6,251)	(8,119)	(14,659)	(7,881)
<i>Foreign currency translation:</i>				
Exchange differences on translation of foreign operations	715	(277)	1,046	(800)
Reclassification adjustment on disposal of a joint venture	-	(324)	-	(324)
	715	(601)	1,046	(1,124)
OTHER COMPREHENSIVE LOSS FOR THE PERIOD	(5,536)	(8,720)	(13,613)	(9,005)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	(411)	(5,446)	(1,737)	(2,949)

The accompanying notes 1 to 14 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 2022

	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	Equity attributable to the Bank KD'000	Perpetual Tier 1 Sukuk KD'000	Total equity KD'000
As at 1 January 2022	200,000	80,375	4,777	1,607	(112)	7,882	294,529	121,270	415,799
Net profit for the period	-	-	-	-	-	11,876	11,876	-	11,876
Other comprehensive (loss) income	-	-	-	(14,659)	1,046	-	(13,613)	-	(13,613)
Total comprehensive (loss) income for the period	-	-	-	(14,659)	1,046	11,876	(1,737)	-	(1,737)
Redemption of Perpetual Tier 1 Sukuk (Note 6)	-	-	-	-	-	-	-	(45,109)	(45,109)
Foreign currency translation from redemption of Perpetual Tier 1 Sukuk	-	-	-	-	-	353	353	(353)	-
Profit paid on Perpetual Tier 1 Sukuk (Note 6)	-	-	-	-	-	(2,991)	(2,991)	-	(2,991)
At 30 June 2022	200,000	80,375	4,777	(13,052)	934	17,120	290,154	75,808	365,962
As at 1 January 2021	157,500	40,000	3,098	1,676	1,469	(12)	203,731	76,363	280,094
Net profit for the period	-	-	-	-	-	6,056	6,056	-	6,056
Other comprehensive loss	-	-	-	(7,881)	(1,124)	-	(9,005)	-	(9,005)
Total comprehensive (loss) income for the period	-	-	-	(7,881)	(1,124)	6,056	(2,949)	-	(2,949)
Profit paid on Perpetual Tier 1 Sukuk	-	-	-	-	-	(2,463)	(2,463)	-	(2,463)
At 30 June 2021	157,500	40,000	3,098	(6,205)	345	3,581	198,319	76,363	274,682

The accompanying notes 1 to 14 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 2022

	Note	Six months ended 30 June	
		2022 KD'000	2021 KD'000
OPERATING ACTIVITIES			
Profit before tax		12,438	6,344
<i>Adjustments for:</i>			
Realised loss (gain) on sale of debt instruments at FVOCI		221	(953)
Realised loss on sale of financial assets at FVPL		-	1
Gain on sale of investment property		(333)	-
Dividend income from financial assets		(2,591)	(1,261)
Share of results from investments in joint ventures		(5,674)	(3,098)
Gain on sale of a joint venture		-	(2,179)
Net rental income from investment properties		(48)	(350)
Fair value adjustment to investment properties		(22)	15
Other investment income		(602)	(316)
Fair value gain from financial assets at FVPL		(4,558)	(5,506)
Provision for employees' end of service benefits		638	507
Depreciation expense		3,162	2,878
Provision for impairment and credit losses		12,557	20,011
		<u>15,188</u>	<u>16,093</u>
<i>Changes in operating assets and liabilities:</i>			
Placements with banks and the CBK		(12,566)	(4,006)
Financing receivables		(373,106)	(7,631)
Other assets		(21,311)	(15,496)
Due to banks and other financial institutions		149,186	113,566
Depositors' accounts		370,419	(50,850)
Other liabilities		7,686	11,580
		<u>135,496</u>	<u>63,256</u>
INVESTING ACTIVITIES			
Purchase of financial assets at FVPL		(13,066)	(13,214)
Proceeds from sale/ redemption of financial assets at FVPL		16,801	1,229
Purchase of financial assets at FVOCI		(44,481)	(103,577)
Proceeds from sale of financial assets at FVOCI		53,704	49,103
Additions to investment in joint ventures		(10,195)	(8,179)
Proceeds from sale/ redemption of joint venture		19,964	9,876
Proceeds from sale of investment property		2,935	-
Purchase of property and equipment		(1,608)	(44)
Dividends received from financial assets		2,591	1,261
Other investment income received		306	316
Distributions received from joint ventures		2,609	5,274
Rental income received		73	433
		<u>29,633</u>	<u>(57,522)</u>
FINANCING ACTIVITIES			
Profit paid to holders on Perpetual Tier 1 Sukuk		(2,991)	(2,463)
Payment of principal portion of lease liabilities		(1,472)	(1,956)
Net movement on Sukuk issued		2,130	(1,115)
Redemption of Perpetual Tier 1 Sukuk		(45,109)	-
		<u>(47,442)</u>	<u>(5,534)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS		<u>117,687</u>	<u>200</u>
Cash and cash equivalents at 1 January		485,466	443,033
CASH AND CASH EQUIVALENTS AT 30 JUNE	3	<u>603,153</u>	<u>443,233</u>
Additional information on operational cash flows			
Finance costs paid		27,423	24,661
Finance income received		52,846	47,835

The accompanying notes 1 to 14 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 2022

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 head office is located at Al-Raya Tower, Mezzanine floor 1, Omar Ibn Al-Khattab Street and its registered postal address is 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 Shari‘a, as approved by the Bank’s Shari‘a Supervisory Board.

The annual general assembly meeting (“AGM”) of the shareholders of the Bank held on 30 March 2022 approved the consolidated financial statements for the year ended 31 December 2021. No cash dividend or bonus shares for the year ended 31 December 2021 (31 December 2020: Nil) were proposed by the Directors and approved by the shareholders at the AGM.

This interim condensed consolidated financial information as at and for the six months ended 30 June 2022 includes the financial information of the Bank and its wholly owned special purpose vehicles (collectively, the “Group”).

The interim condensed consolidated financial information of the Group for the six months ended 30 June 2022 has been approved for issue in accordance with the Board of Directors resolution on 17 July 2022.

2 BASIS OF PREPARATION AND CHANGES TO THE GROUP’S ACCOUNTING POLICIES

2.1 Basis of preparation

The interim condensed consolidated financial information of the Group has been prepared in accordance with International Accounting Standard 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 banks and other financial institutions regulated by CBK to adopt the International Financial Reporting Standards (IFRS) as issued by International Accounting Standards Board (IASB) with the following amendments:

- (i) Expected credit loss (“ECL”) to be measured at the higher of ECL provision on financing facilities computed under IFRS 9 in accordance with CBK guidelines or the provisions as required by CBK instructions along with its consequent impact on related disclosures; and
- (ii) Recognition of modification losses on financial assets arising from payment holidays to customers as a result of COVID during the financial year ended 31 December 2020, as required by CBK circular no. 2/BS/IBS/461/2020 dated 5 July 2020. Modification losses referred to in the circular, should be recognized in retained earnings instead of profit or loss as would be required by IFRS 9. However, modification loss on financial assets arising from any other payment holidays to customers shall be recognized in profit or loss in accordance with IFRS 9. All modification losses incurred after the year ended 31 December 2020 are recognized in the statement of profit or loss. The application of the policy will result in application of different accounting presentation for modification loss in 2020 compared to other periods.

The above framework is herein after referred to as ‘IFRS as adopted by CBK for use by the State of Kuwait’.

The interim condensed consolidated financial information does not include all the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements as at and for the year ended 31 December 2021.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
INFORMATION (UNAUDITED)

As at and for the period ended 30 June 2022

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

2.1 Basis of preparation (continued)

The Group has prepared the interim condensed consolidated financial information on the basis that it will continue to operate as a going concern. The management considers that there are no material uncertainties that may cast significant doubt over this assumption. They have formed a judgement that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future, and not less than 12 months from the end of the reporting period.

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 2021, except for the adoption of new standards effective as of 1 January 2022. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Several amendments apply for the first time in 2022, but do not have an impact on the interim condensed consolidated financial information of the Group.

Reference to the Conceptual Framework – Amendments to IFRS 3

The amendments replace a reference to a previous version of the IASB's Conceptual Framework with a reference to the current version issued in March 2018 without significantly changing its requirements.

The amendments add an exception to the recognition principle of IFRS 3 Business Combinations to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies, if incurred separately. The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of the Conceptual Framework, to determine whether a present obligation exists at the acquisition date.

The amendments also add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

These amendments had no impact on the interim condensed consolidated financial information of the Group as there were no contingent assets, liabilities and contingent liabilities within the scope of these amendments arisen during the period.

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16

The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment, any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

These amendments had no impact on the interim condensed consolidated financial information of the Group as there were no sales of such items produced by property, plant and equipment made available for use on or after the beginning of the earliest period presented.

IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. There is no similar amendment proposed for IAS 39 *Financial Instruments: Recognition and Measurement*.

These amendments had no impact on the interim condensed consolidated financial information of the Group as there were no modifications of the Group's financial instruments during the period.

Warba Bank K.S.C.P.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
INFORMATION (UNAUDITED)

As at and for the period ended 30 June 2022

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 June</i> <i>2022</i> <i>KD'000</i>	<i>(Audited)</i> <i>31 December</i> <i>2021</i> <i>KD'000</i>	<i>30 June</i> <i>2021</i> <i>KD'000</i>
Cash	8,473	5,486	12,354
Current account with the CBK	109,802	59,779	68,413
Current account with commercial banks	13,629	14,591	11,027
Total cash and bank balances	131,904	79,856	91,794
Placements with the CBK whose original maturity is within three months	158,549	141,542	120,033
Placements with banks whose original maturity is within three months	312,700	264,068	231,406
Total cash and cash equivalents	603,153	485,466	443,233

4 FINANCING RECEIVABLES

	<i>30 June</i> <i>2022</i> <i>KD'000</i>	<i>(Audited)</i> <i>31 December</i> <i>2021</i> <i>KD'000</i>	<i>30 June</i> <i>2021</i> <i>KD'000</i>
Financing receivables	3,061,559	2,674,484	2,664,665
Less: deferred profit	(149,108)	(133,840)	(129,623)
Financing receivables before provision for impairment	2,912,451	2,540,644	2,535,042
Less: Provision for impairment as per the CBK guidelines	(85,765)	(67,128)	(54,053)
	2,826,686	2,473,516	2,480,989

The following tables illustrates the reconciliation from the opening to the closing balance of the loss allowance (cash and non-cash facilities) as per the CBK instructions:

	<i>30 June 2022</i>		
	Specific KD 000's	General KD 000's	Total KD 000's
As at 1 January 2022	20,169	59,957	80,126
Charge for the period	1,324	11,018	12,342
Amounts written off	(1,426)	-	(1,426)
Foreign exchange adjustments	-	124	124
	20,067	71,099	91,166

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
INFORMATION (UNAUDITED)

As at and for the period ended 30 June 2022

4 FINANCING RECEIVABLES (continued)

	31 December 2021		
	Specific KD 000's	General KD 000's	Total KD 000's
As at 1 January 2021	6,121	40,498	46,619
Charge for the period	23,167	19,476	42,643
Amounts written off	(9,119)	-	(9,119)
Foreign exchange adjustments	-	(17)	(17)
	<u>20,169</u>	<u>59,957</u>	<u>80,126</u>
	<u><u>20,169</u></u>	<u><u>59,957</u></u>	<u><u>80,126</u></u>
	30 June 2021		
	Specific KD 000's	General KD 000's	Total KD 000's
As at 1 January 2021	6,121	40,498	46,619
Charge	10,396	9,397	19,793
Amounts written off	(3,094)	-	(3,094)
Foreign exchange adjustments	-	(27)	(27)
	<u>13,423</u>	<u>49,868</u>	<u>63,291</u>
	<u><u>13,423</u></u>	<u><u>49,868</u></u>	<u><u>63,291</u></u>

Included within provision an amount of KD 5,401 thousand (31 December 2021: KD 12,998 thousand and 30 June 2021: KD 9,238 thousand) relating to non-cash facilities recorded under other liabilities.

An analysis of the carrying amounts of financing receivables, and the corresponding ECL based on the staging criteria under IFRS 9 in accordance with CBK regulations is as follows:

	As at 30 June 2022			
	Stage 1 KD 000's	Stage 2 KD 000's	Stage 3 KD 000's	Total KD 000's
Financing receivables				
High	1,202,776	95,445	-	1,298,221
Standard	1,242,532	116,817	-	1,359,349
Past due or impaired	128,062	92,136	34,683	254,881
	<u>2,573,370</u>	<u>304,398</u>	<u>34,683</u>	<u>2,912,451</u>
	<u><u>2,573,370</u></u>	<u><u>304,398</u></u>	<u><u>34,683</u></u>	<u><u>2,912,451</u></u>
	As at 31 December 2021			
	Stage 1 KD 000's	Stage 2 KD 000's	Stage 3 KD 000's	Total KD 000's
Financing receivables				
High	1,016,667	72,994	-	1,089,661
Standard	1,114,773	109,525	-	1,224,298
Past due or impaired	132,307	58,675	35,703	226,685
	<u>2,263,747</u>	<u>241,194</u>	<u>35,703</u>	<u>2,540,644</u>
	<u><u>2,263,747</u></u>	<u><u>241,194</u></u>	<u><u>35,703</u></u>	<u><u>2,540,644</u></u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
INFORMATION (UNAUDITED)

As at and for the period ended 30 June 2022

4 FINANCING RECEIVABLES (continued)

	<i>As at 30 June 2021</i>			
	<i>Stage 1</i> <i>KD 000's</i>	<i>Stage 2</i> <i>KD 000's</i>	<i>Stage 3</i> <i>KD 000's</i>	<i>Total</i> <i>KD 000's</i>
<i>Financing receivables</i>				
High	1,039,337	37,201	-	1,076,538
Standard	1,188,320	70,478	-	1,258,798
Past due or impaired	136,902	24,836	37,968	199,706
	<u>2,364,559</u>	<u>132,515</u>	<u>37,968</u>	<u>2,535,042</u>

An analysis of the changes in the ECL in relation to financing receivables (cash facilities) computed under IFRS 9 in accordance with the CBK guidelines is as follows:

	<i>As at 30 June 2022</i>			
	<i>Stage 1</i> <i>KD 000's</i>	<i>Stage 2</i> <i>KD 000's</i>	<i>Stage 3</i> <i>KD 000's</i>	<i>Total</i> <i>KD 000's</i>
ECL allowance as at 1 January 2022	21,221	9,408	14,282	44,911
Transfer from Stage 1	(232)	225	7	-
Transfer from Stage 2	420	(571)	151	-
Transfer from Stage 3	79	22	(101)	-
Additional ECL for the period	2,430	1,805	2,571	6,806
Amounts written off	-	-	(1,426)	(1,426)
At 30 June 2022	<u>23,918</u>	<u>10,889</u>	<u>15,484</u>	<u>50,291</u>

	<i>As at 31 December 2021</i>			
	<i>Stage 1</i> <i>KD 000's</i>	<i>Stage 2</i> <i>KD 000's</i>	<i>Stage 3</i> <i>KD 000's</i>	<i>Total</i> <i>KD 000's</i>
ECL allowance as at 1 January 2021	22,138	3,641	5,027	30,806
Transfer from Stage 1	(1,672)	1,597	75	-
Transfer from Stage 2	323	(960)	637	-
Transfer from Stage 3	767	2	(769)	-
(Reversal) additional ECL for the year	(335)	5,128	18,431	23,224
Amounts written off	-	-	(9,119)	(9,119)
At 31 December 2021	<u>21,221</u>	<u>9,408</u>	<u>14,282</u>	<u>44,911</u>

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As at and for the period ended 30 June 2022

4 FINANCING RECEIVABLES (continued)

	<i>As at 30 June 2021</i>			
	<i>Stage 1</i> <i>KD 000's</i>	<i>Stage 2</i> <i>KD 000's</i>	<i>Stage 3</i> <i>KD 000's</i>	<i>Total</i> <i>KD 000's</i>
ECL allowance as at 1 January 2021	22,138	3,641	5,027	30,806
Transfer from Stage 1	(1,660)	1,585	75	-
Transfer from Stage 2	322	(957)	635	-
Transfer from Stage 3	763	1	(764)	-
(Reversal) additional ECL for the period	(931)	1,258	9,844	10,171
Amounts written off	-	-	(3,094)	(3,094)
Foreign exchange differences	10	-	-	10
At 30 June 2021	<u>20,642</u>	<u>5,528</u>	<u>11,723</u>	<u>37,893</u>

An analysis of the carrying amounts of contingent liabilities and commitments (non-cash facilities), and the corresponding ECL based on the staging criteria under IFRS 9 in accordance with CBK regulations is as follows:

	<i>As at 30 June 2022</i>			
	<i>Stage 1</i> <i>KD 000's</i>	<i>Stage 2</i> <i>KD 000's</i>	<i>Stage 3</i> <i>KD 000's</i>	<i>Total</i> <i>KD 000's</i>
<i>Non-cash facilities</i>				
High	65,074	2,946	-	68,020
Standard	84,368	33,357	-	117,725
Past due or impaired	-	-	4,494	4,494
	<u>149,442</u>	<u>36,303</u>	<u>4,494</u>	<u>190,239</u>

	<i>As at 31 December 2021</i>			
	<i>Stage 1</i> <i>KD 000's</i>	<i>Stage 2</i> <i>KD 000's</i>	<i>Stage 3</i> <i>KD 000's</i>	<i>Total</i> <i>KD 000's</i>
<i>Non-cash facilities</i>				
High	65,303	4,935	-	70,238
Standard	89,729	32,301	-	122,030
Past due or impaired	-	-	3,858	3,858
	<u>155,032</u>	<u>37,236</u>	<u>3,858</u>	<u>196,126</u>

	<i>As at 30 June 2021</i>			
	<i>Stage 1</i> <i>KD 000's</i>	<i>Stage 2</i> <i>KD 000's</i>	<i>Stage 3</i> <i>KD 000's</i>	<i>Total</i> <i>KD 000's</i>
<i>Non-cash facilities</i>				
High	52,004	2,142	-	54,146
Standard	99,935	23,635	-	123,570
Past due or impaired	-	-	4,740	4,740
	<u>151,939</u>	<u>25,777</u>	<u>4,740</u>	<u>182,456</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

As at and for the period ended 30 June 2022

4 FINANCING RECEIVABLES (continued)

An analysis of the changes in the ECL in relation to financing receivables (non-cash facilities) computed under IFRS 9 in accordance with the CBK guidelines is as follows:

	<i>As at 30 June 2022</i>			
	<i>Stage 1</i> <i>KD 000's</i>	<i>Stage 2</i> <i>KD 000's</i>	<i>Stage 3</i> <i>KD 000's</i>	<i>Total</i> <i>KD 000's</i>
ECL allowance as at 1 January 2022	2,804	3,170	3,854	9,828
Transfer from Stage 1	(41)	41	-	-
Transfer from Stage 2	35	(38)	3	-
Transfer from Stage 3	5	-	(5)	-
(Reversal) additional ECL for the period	(37)	(836)	627	(246)
At 30 June 2022	<u>2,766</u>	<u>2,337</u>	<u>4,479</u>	<u>9,582</u>
	<i>As at 31 December 2021</i>			
	<i>Stage 1</i> <i>KD 000's</i>	<i>Stage 2</i> <i>KD 000's</i>	<i>Stage 3</i> <i>KD 000's</i>	<i>Total</i> <i>KD 000's</i>
ECL allowance as at 1 January 2021	4,022	2,079	3,707	9,808
Transfer from Stage 1	(204)	195	9	-
Transfer from Stage 2	-	(11)	11	-
Transfer from Stage 3	5	-	(5)	-
(Reversal) additional ECL for the year	(1,019)	907	132	20
At 31 December 2021	<u>2,804</u>	<u>3,170</u>	<u>3,854</u>	<u>9,828</u>
	<i>As at 30 June 2021</i>			
	<i>Stage 1</i> <i>KD 000's</i>	<i>Stage 2</i> <i>KD 000's</i>	<i>Stage 3</i> <i>KD 000's</i>	<i>Total</i> <i>KD 000's</i>
ECL allowance as at 1 January 2021	4,022	2,079	3,707	9,808
Transfer from Stage 1	(173)	165	8	-
Transfer from Stage 2	-	(60)	60	-
(Reversal) additional ECL for the period	(485)	(434)	955	36
At 30 June 2021	<u>3,364</u>	<u>1,750</u>	<u>4,730</u>	<u>9,844</u>

5 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).

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As at and for the period ended 30 June 2022

6 PERPETUAL TIER 1 SUKUK

Tier 1 Sukuk is a perpetual security in respect of which there is no fixed redemption date and constitutes direct, unsecured, subordinated obligations (senior only to share capital) of the Bank subject to the terms and conditions of the Mudaraba Agreement. The net proceeds of Tier 1 Sukuk are invested by way of Mudaraba with the Bank (as Mudareb), on an unrestricted co-mingling basis, by the Bank in its general business activities carried out through the general Mudaraba pool. At the Bank's sole discretion, it may elect not to make any Mudaraba distributions expected and in such event, the Mudaraba profit will not be accumulated and the event is not considered an event of default.

The Tier 1 Sukuk issued in 2017 amounting to USD 250 million, callable in 14 March 2022, was partially redeemed on 29 November 2021 through a tender buy-back amounting to USD 101.9 million at a price of 101.42% of the nominal value. Premium paid on the tender buy-back along with the foreign exchange translation were recorded in the consolidated statement of changes in equity for the year ended 31 December 2021. On 14 March 2022, the first call date, the remaining portion of the Tier 1 Sukuk was fully redeemed by way of exercising the sukuk Call Option amounting to USD 148.1 million at a price of 100% of their nominal value. The Bank made the last profit payment during the period on 13 March 2022.

On 29 November 2021, the Bank, through a Shari'a compliant Sukuk arrangement, issued Tier 1 Sukuk amounting to USD 250 million. The Tier 1 Sukuk is listed on the Irish Stock Exchange and NASDAQ Dubai and callable by the Bank after five-year period ending 26 November 2026 (the "First Call Date") or any profit payment date thereafter subject to certain redemption conditions. Such Sukuk bears a profit rate of 4% per annum to be paid semi-annually in arrears until the First Call Date. After that, the expected profit rate will be reset based on the prevailing 5 years U.S Mid Swap Rate plus initial margin of 2.748% per annum.

7 PROVISION FOR IMPAIRMENT AND CREDIT LOSSES

	<i>Three months ended</i>		<i>Six months ended</i>	
	<i>30 June</i>		<i>30 June</i>	
	<i>2022</i>	<i>2021</i>	<i>2022</i>	<i>2021</i>
	<i>KD'000</i>	<i>KD'000</i>	<i>KD'000</i>	<i>KD'000</i>
Provision charge for credit facilities – specific	702	6,420	1,324	10,396
Provision charge for credit facilities – general	6,459	3,209	11,018	9,397
Expected credit losses charge	134	379	215	218
	7,295	10,008	12,557	20,011

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

As at and for the period ended 30 June 2022

8 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 adjusted for profit paid on Perpetual Tier 1 Sukuk by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is calculated by dividing the 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 earnings per share are identical.

	<i>Three months ended 30 June</i>		<i>Six months ended 30 June</i>	
	<i>2022</i>	<i>2021 (Restated)</i>	<i>2022</i>	<i>2021 (Restated)</i>
Net profit for the period (KD'000)	5,125	3,274	11,876	6,056
Less: profit payment on Perpetual Tier 1 Sukuk (KD'000)	(1,523)	-	(2,991)	(2,463)
	3,602	3,274	8,885	3,593
Weighted average number of shares outstanding (shares'000)	2,000,000	1,675,810	2,000,000	1,675,810
Basic and diluted EPS (fils)	1.80	1.95	4.44	2.14

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

There have been no transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of authorisation of this interim condensed consolidated financial information.

9 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. Lending to Board Members and their related parties is secured by tangible collateral in accordance with regulation of Central Bank of Kuwait.

9.1 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 June</i>		<i>Six months ended 30 June</i>	
	<i>2022 KD'000</i>	<i>2021 KD'000</i>	<i>2022 KD'000</i>	<i>2021 KD'000</i>
Salaries and short-term benefits	499	526	1,016	1,319
End of service benefits	49	48	97	96
	548	574	1,113	1,415

The AGM of the shareholders of the Bank held on 30 March 2022 approved directors' remuneration for the year ended 31 December 2021 amounting to KD 66 thousand.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

As at and for the period ended 30 June 2022

9 RELATED PARTY DISCLOSURES (continued)**9.2 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 balances recorded under key management personnel and board of directors' members in the interim condensed consolidated statement of financial position:

	30 June 2022	<i>(Audited)</i> 31 December 2021	30 June 2021
	KD'000	<i>KD'000</i>	<i>KD'000</i>
Financing facilities	702	1,994	1,731
Credit cards	9	5	7
Depositors' accounts	6,392	6,471	2,353
<i>Contingent liabilities:</i>			
Letter of guarantees	3,764	4	4

The number of the board members, executive officers and their related parties is as follows:

	30 June 2022	<i>(Audited)</i> 31 December 2021	30 June 2021
Financing facilities	9	6	5
Credit cards	4	3	6
Depositors' accounts	54	48	45
Letter of guarantees	4	1	1

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

	<i>Six months ended 30 June</i>	
	2022	2021
	KD'000	<i>KD'000</i>
Placements and finance income	22	36
Finance costs and distribution to depositors	208	31

9.3 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.

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

	<i>Outstanding balances as at</i>		30 June 2022	<i>(Audited)</i> 31 December 2021	30 June 2021
	<i>Major shareholders</i>	<i>Other related parties</i>	KD'000	<i>KD'000</i>	<i>KD'000</i>
Depositors' accounts	506,938	1,068	508,006	494,354	456,599

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
INFORMATION (UNAUDITED)

As at and for the period ended 30 June 2022

9 RELATED PARTY DISCLOSURES (continued)

9.3 Transactions with major shareholders and other related parties (continued)

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 2022		
Depositors' accounts	2	41
31 December 2021 (Audited)		
Depositors' accounts	2	36
30 June 2021		
Depositors' accounts	2	31

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

	<i>Transactions values during the period ended</i>			<i>30 June 2021 KD'000</i>
	<i>Major shareholders KD'000</i>	<i>Other related parties KD'000</i>	<i>30 June 2022 KD'000</i>	
Finance costs and distributions to depositors	3,231	-	3,231	2,645

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.

10 COMMITMENTS AND CONTINGENT LIABILITIES

	<i>30 June 2022 KD'000</i>	<i>(Audited) 31 December 2021 KD'000</i>	<i>30 June 2021 KD'000</i>
Acceptances and letters of credit	46,357	52,259	42,396
Letters of guarantee	143,882	143,867	140,060
Contingent liabilities	190,239	196,126	182,456
Capital and other commitments	156,463	113,063	121,228

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11 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, other investments and asset management.
- ▶ **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 2022</i>					
	<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>
Operating income (loss)	21,492	7,997	(1,565)	13,288	-	41,212
Net profit (loss)	9,397	2,107	(1,732)	12,191	(10,087)	11,876
Total assets	2,263,571	576,847	794,781	358,907	59,457	4,053,563
Total liabilities	629,717	1,054,865	1,946,011	-	57,008	3,687,601
	<i>30 June 2021</i>					
	<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>
Operating income	18,618	7,542	1,166	12,985	-	40,311
Net (loss) profit	(1,168)	2,412	1,050	11,845	(8,083)	6,056
Total assets	2,018,761	462,228	643,197	354,671	66,873	3,545,730
Total liabilities	556,549	883,647	1,771,643	-	59,209	3,271,048

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
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As at and for the period ended 30 June 2022

12 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>Fair value measurement</i>			
	<i>Total</i> <i>KD'000</i>	<i>(Level 1)</i> <i>KD'000</i>	<i>(Level 2)</i> <i>KD'000</i>	<i>(Level 3)</i> <i>KD'000</i>
30 June 2022				
<i>Assets measured at fair value on a recurring basis</i>				
<i>Financial assets at FVPL</i>				
Quoted equity instruments	13,480	13,480	-	-
Funds (unquoted)	110,199	-	-	110,199
Other securities (unquoted)	6,042	-	-	6,042
	<u>129,721</u>	<u>13,480</u>	<u>-</u>	<u>116,241</u>
<i>Financial assets at FVOCI</i>				
Quoted Sukuk				
- Sovereign Sukuk	168,771	168,771	-	-
- Corporate Sukuk	64,193	64,193	-	-
	<u>232,964</u>	<u>232,964</u>	<u>-</u>	<u>-</u>
Unquoted Sukuk	713	-	-	713
Unquoted equity instruments	5,613	-	-	5,613
	<u>239,290</u>	<u>232,964</u>	<u>-</u>	<u>6,326</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

As at and for the period ended 30 June 2022

12 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 2022						
	<i>At</i> <i>1 January</i> <i>2022</i> <i>KD'000</i>	<i>Additions</i> <i>KD'000</i>	<i>Sales/</i> <i>redemptions</i> <i>KD'000</i>	<i>Change in</i> <i>fair value</i> <i>KD'000</i>	<i>Exchange</i> <i>rate</i> <i>movements</i> <i>KD'000</i>	<i>At</i> <i>30 June</i> <i>2022</i> <i>KD'000</i>
<i>Financial assets at FVPL</i>						
Funds (unquoted)	94,021	12,821	(5,067)	7,708	716	110,199
Other securities (unquoted)	17,979	-	(11,496)	(527)	86	6,042
	112,000	12,821	(16,563)	7,181	802	116,241
<i>Financial assets at FVOCI</i>						
Unquoted Sukuk	-	754	-	(52)	11	713
Unquoted equity instruments	5,613	-	-	-	-	5,613
	5,613	754	-	(52)	11	6,326
31 December 2021 (Audited)						
	<i>At</i> <i>1 January</i> <i>2021</i> <i>KD'000</i>	<i>Additions</i> <i>KD'000</i>	<i>Sales/</i> <i>redemptions</i> <i>KD'000</i>	<i>Change in</i> <i>fair value</i> <i>KD'000</i>	<i>Exchange</i> <i>rate</i> <i>movements</i> <i>KD'000</i>	<i>At</i> <i>31 December</i> <i>2021</i> <i>KD'000</i>
<i>Financial assets at FVTPL</i>						
Funds (unquoted)	57,792	34,086	(6,660)	9,340	(537)	94,021
Other securities (unquoted)	17,557	1,153	-	(683)	(48)	17,979
	75,349	35,239	(6,660)	8,657	(585)	112,000
<i>Financial assets at FVOCI</i>						
Unquoted Sukuk	6,303	-	(6,014)	(237)	(52)	-
Unquoted equity instruments	5,538	30	-	45	-	5,613
	11,841	30	(6,014)	(192)	(52)	5,613
30 June 2021						
	<i>At</i> <i>1 January</i> <i>2021</i> <i>KD'000</i>	<i>Additions</i> <i>KD'000</i>	<i>Sales/</i> <i>redemptions</i> <i>KD'000</i>	<i>Change in</i> <i>fair value</i> <i>KD'000</i>	<i>Exchange</i> <i>rate</i> <i>movements</i> <i>KD'000</i>	<i>At</i> <i>30 June</i> <i>2021</i> <i>KD'000</i>
<i>Financial assets at FVPL</i>						
Funds (unquoted)	57,792	11,993	(1,176)	4,652	(604)	72,657
Other securities (unquoted)	17,557	1,153	-	(263)	(136)	18,311
	75,349	13,146	(1,176)	4,389	(740)	90,968
<i>Financial assets at FVOCI</i>						
Unquoted Sukuk	6,303	-	-	(66)	(43)	6,194
Unquoted equity instruments	5,538	31	-	-	-	5,569
	11,841	31	-	(66)	(43)	11,763

There were no transfers between any levels of the fair value hierarchy during 2022 or 2021.

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 2021.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

As at and for the period ended 30 June 2022

12 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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.

13 DERIVATIVE FINANCIAL INSTRUMENTS

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

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

The Group deals in forward foreign exchange ("Islamic derivative financial instruments") to mitigate foreign currency risk. The forward foreign exchange contracts are being used for hedging purpose.

Forward foreign exchange contracts

Forward foreign exchange contracts are contractual agreements to buy, sell or exchange a specified financial instrument at a specific price and date in the future. Forwards are customized contracts transacted on the over the counter market and are settled on a gross basis.

The table below shows the positive and negative fair values of these instruments, which are equivalent to the market values, together with the notional amounts. The notional amount is the amount of currency swap instruments' underlying asset, reference rate or index and is the basis upon which changes in the value of these instruments are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

	<i>Positive fair value</i>	<i>Negative fair value</i>	<i>KD'000 Notional amount</i>
30 June 2022			
Forward contracts	-	(19)	9,064
	=====	=====	=====
			<i>KD'000</i>
	<i>Positive fair value</i>	<i>Negative fair value</i>	<i>Notional amount</i>
31 December 2021			
Forward contracts	-	(40)	9,064
	=====	=====	=====

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
INFORMATION (UNAUDITED)

As at and for the period ended 30 June 2022

13 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

	<i>KD'000</i>		
	<i>Positive fair value</i>	<i>Negative fair value</i>	<i>Notional amount</i>
<i>30 June 2021</i>			
Forward contracts	-	-	-

All derivative contracts are fair valued based on observable market inputs and are classified as level 1.

14 FIDUCIARY ASSETS

The aggregate value of assets held in a trust or fiduciary capacity by the Group at 30 June 2022 amounted to KD 14,154 thousand (31 December 2021: KD Nil and 30 June 2021: KD Nil).