

BOUBYAN BANK K.S.C.P. AND SUBSIDIARIES



**INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION
AND INDEPENDENT AUDITORS' REVIEW REPORT FOR THE PERIOD
FROM 1 JANUARY 2019 TO 30 JUNE 2019
(UNAUDITED)**

BOUBYAN BANK K.S.C.P. AND SUBSIDIARIES

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



For the period from 1 January 2019 to 30 June 2019

INDEX	Page
Independent auditors' review report on interim condensed consolidated financial information	1
Interim condensed consolidated statement of profit or loss (unaudited)	2
Interim condensed consolidated statement of other comprehensive income (unaudited)	3
Interim condensed consolidated statement of financial position (unaudited)	4
Interim condensed consolidated statement of changes in equity (unaudited)	5
Interim condensed consolidated statement of cash flows (unaudited)	6
Notes to the interim condensed consolidated financial information (unaudited)	7-15



Building a better
working world

Ernst & Young
Al Aiban, Al Osaimi & Partners
P.O. Box 74
18–20th Floor, Baitak Tower
Ahmed Al Jaber Street
Safat Square 13001, Kuwait

Tel: +965 2295 5000
Fax: +965 2245 6419
kuwait@kw.ey.com
ey.com/mena

Deloitte.

**Deloitte & Touche
Al-Wazzan & Co.**

Ahmed Al-Jaber Street, Sharq
Dar Al-Awadi Complex, Floors 7 & 9
P.O. Box 20174, Safat 13062
Kuwait

Tel : + 965 22408844, 22438060
Fax: + 965 22408855, 22452080
www.deloitte.com

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

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Boubyan Bank K.S.C.P. (the “Bank”) and its subsidiaries (collectively “the Group”) as at 30 June 2019, and the related interim condensed consolidated statement of profit or loss and the interim condensed consolidated statement of other comprehensive income for the three and six months periods then ended, and the related interim condensed consolidated statement of changes in equity and interim condensed consolidated statement of cash flows for the six months 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 presentation set out in Note 2. Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial information is not prepared, in all material respects, in accordance with the basis of presentation 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 accounts 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, and its executive regulations, as amended, or of the Bank’s Articles of Association and Memorandum of Incorporation, as amended, during the six months period ended 30 June 2019 that might have had a material effect on the business of the Bank or on its financial position.

We further report that, during the course of our review, to the best of our knowledge and belief, we have not become aware of any violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organisation of banking business, and its related regulations, during the six months period ended 30 June 2019 that might have had a material effect on the business of the Bank or on its financial position.

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

BADER A. AL-WAZZAN
LICENCE NO. 62A
DELOITTE & TOUCHE
AL-WAZZAN & CO.

7 July 2019
Kuwait

BOUBYAN BANK K.S.C.P. AND SUBSIDIARIES
**INTERIM CONDENSED CONSOLIDATED STATEMENT
OF PROFIT OR LOSS (UNAUDITED)**


For the period from 1 January 2019 to 30 June 2019

	Notes	Three months ended 30 June		Six months ended 30 June	
		2019	2018	2019	2018
		KD'000s	KD'000s	KD'000s	KD'000s
Income					
Murabaha and other Islamic financing income		51,032	45,029	99,807	86,998
Finance cost and distribution to depositors		(21,232)	(14,409)	(41,400)	(27,548)
Net financing income		29,800	30,620	58,407	59,450
Net investment income	3	1,676	1,731	4,373	2,605
Net fees and commission income		4,373	3,394	9,348	7,140
Net foreign exchange gain		807	738	1,742	1,465
Operating income		36,656	36,483	73,870	70,660
Operating expenses					
Staff costs		(8,814)	(8,757)	(17,807)	(17,098)
General and administrative expenses	6	(3,559)	(4,841)	(6,967)	(9,074)
Depreciation	6	(1,940)	(1,026)	(3,885)	(2,095)
Operating expenses		(14,313)	(14,624)	(28,659)	(28,267)
Operating profit before provision for impairment		22,343	21,859	45,211	42,393
Provision for impairment	4	(7,358)	(8,076)	(14,959)	(15,359)
Operating profit before deductions		14,985	13,783	30,252	27,034
Taxation	5	(734)	(596)	(1,377)	(1,193)
Net profit for the period		14,251	13,187	28,875	25,841
Attributable to:					
Equity holders of the Bank		14,246	13,178	28,865	25,741
Non-controlling interests		5	9	10	100
Net profit for the period		14,251	13,187	28,875	25,841
Basic and diluted earnings per share attributable to the equity holders of the Bank (fils)	7	4.10	4.00	9.55	8.72

The notes from 1 to 16 form an integral part of this interim condensed consolidated financial information.

BOUBYAN BANK K.S.C.P. AND SUBSIDIARIES**INTERIM CONDENSED CONSOLIDATED STATEMENT
OF OTHER COMPREHENSIVE INCOME (UNAUDITED)**

For the period from 1 January 2019 to 30 June 2019

	Three months ended 30 June		Six months ended 30 June	
	2019	2018	2019	2018
	KD'000s	KD'000s	KD'000s	KD'000s
Net profit for the period	14,251	13,187	28,875	25,841
Other comprehensive (loss)/ income				
Items that are or may be reclassified to interim condensed consolidated statement of profit or loss in subsequent periods:				
Change in fair value of debt investments at fair value through other comprehensive income	(865)	273	1,032	(1,712)
Foreign currency translation adjustments	94	(29)	431	(2,553)
Items that will not be reclassified to interim condensed consolidated statement of profit or loss in subsequent periods:				
Change in fair value of equity investments at fair value through other comprehensive income	68	3	249	(221)
Other comprehensive (loss)/ income for the period	(703)	247	1,712	(4,486)
Total comprehensive income for the period	13,548	13,434	30,587	21,355
Attributable to:				
Equity holders of the Bank	13,543	13,425	30,577	21,255
Non-controlling interests	5	9	10	100
Total comprehensive income for the period	13,548	13,434	30,587	21,355


The notes from 1 to 16 form an integral part of this interim condensed consolidated financial information.

BOUBYAN BANK K.S.C.P. AND SUBSIDIARIES

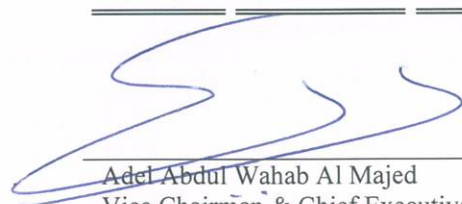
INTERIM CONDENSED CONSOLIDATED STATEMENT OF
FINANCIAL POSITION (UNAUDITED)

As at 30 June 2019

	Notes	30 June	(Audited) 31 December	30 June
		2019	2018	2018
		KD'000s	KD'000s	KD'000s
Assets				
Cash and balances with banks	8	145,888	83,805	68,833
Deposits with Central Bank of Kuwait		319,289	244,685	289,975
Deposits with other banks		217,783	237,088	210,527
Islamic financing to customers		3,541,346	3,262,285	3,132,216
Investment in Sukuk	9	341,494	309,339	254,888
Other investment securities	9	76,875	73,500	58,805
Investments in associates		31,334	28,916	43,346
Investment properties		24,697	24,036	29,291
Other assets		23,557	24,088	24,404
Property and equipment		70,677	57,036	54,555
Total assets		4,792,940	4,344,778	4,166,840
Liabilities and equity				
Liabilities				
Due to banks		128,224	97,216	120,335
Depositors' accounts		3,980,813	3,720,935	3,552,311
Other liabilities		57,294	40,667	38,767
Total liabilities		4,166,331	3,858,818	3,711,413
Equity				
Share capital	16	288,407	238,847	238,847
Share premium	16	156,942	62,896	62,896
Proposed bonus shares	16	-	11,942	-
Treasury shares	11	(54)	(643)	(643)
Statutory reserve		25,251	25,251	19,349
Other reserves	12	20,463	19,165	10,789
Retained earnings		57,887	31,707	46,488
Proposed cash dividends	16	-	19,092	-
Equity attributable to equity holders of the Bank		548,896	408,257	377,726
Perpetual Tier 1 Sukuk		75,388	75,388	75,388
Non-controlling interests		2,325	2,315	2,313
Total equity		626,609	485,960	455,427
Total liabilities and equity		4,792,940	4,344,778	4,166,840



Mahmoud Yousef Al-Fulaij
Chairman



Adel Abdul Wahab Al Majed
Vice Chairman & Chief Executive
Officer

The notes from 1 to 16 form an integral part of this interim condensed consolidated financial information.

BOUBYAN BANK K.S.C.P. AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the period from 1 January 2019 to 30 June 2019

	Share capital	Share premium	Proposed bonus shares	Treasury shares	Statutory reserve	Other reserves (note 12)	Retained earnings	Proposed cash dividends	Total	Perpetual tier 1 Sukuk	Non-controlling interests	Total equity
	KD'000s	KD'000s	KD'000s	KD'000s	KD'000s	KD'000s	KD'000s	KD'000s	KD'000s	KD'000s	KD'000s	KD'000s
Balance at 1 January 2019	238,847	62,896	11,942	(643)	25,251	19,165	31,707	19,092	408,257	75,388	2,315	485,960
Profit for the period	-	-	-	-	-	-	28,865	-	28,865	-	10	28,875
Other comprehensive income for the period	-	-	-	-	-	1,712	-	-	1,712	-	-	1,712
Total comprehensive income for the period	-	-	-	-	-	1,712	28,865	-	30,577	-	10	30,587
Dividends paid (note 16)	-	-	-	-	-	-	(14)	(19,092)	(19,106)	-	-	(19,106)
Profit paid on Perpetual Tier 1 Sukuk	-	-	-	-	-	-	(2,563)	-	(2,563)	-	-	(2,563)
Issue of bonus shares (note 16)	11,942	-	(11,942)	-	-	-	-	-	-	-	-	-
Increase in share capital (note 16)	37,618	94,046	-	-	-	-	-	-	131,664	-	-	131,664
Cost directly related to increase in share capital	-	-	-	-	-	-	(108)	-	(108)	-	-	(108)
Sale of treasury shares	-	-	-	589	-	(414)	-	-	175	-	-	175
Balance at 30 June 2019	288,407	156,942	-	(54)	25,251	20,463	57,887	-	548,896	75,388	2,325	626,609
Balance at 1 January 2018 (as originally stated)	227,473	62,896	11,374	(1,122)	19,349	14,764	24,122	15,900	374,756	75,388	2,213	452,357
Impact of adopting IFRS 9 at 1 January 2018	-	-	-	-	-	798	(831)	-	(33)	-	-	(33)
Balance as at 1 January 2018 (<i>restated</i>)	227,473	62,896	11,374	(1,122)	19,349	15,562	23,291	15,900	374,723	75,388	2,213	452,324
Profit for the period	-	-	-	-	-	-	25,741	-	25,741	-	100	25,841
Other comprehensive loss	-	-	-	-	-	(4,486)	-	-	(4,486)	-	-	(4,486)
Total comprehensive (loss)/income for the period	-	-	-	-	-	(4,486)	25,741	-	21,255	-	100	21,355
Dividends paid (note 16)	-	-	-	-	-	-	-	(15,900)	(15,900)	-	-	(15,900)
Profit paid on Perpetual Tier 1 Sukuk	-	-	-	-	-	-	(2,544)	-	(2,544)	-	-	(2,544)
Issue of bonus shares (note 16)	11,374	-	(11,374)	-	-	-	-	-	-	-	-	-
Sale of treasury shares	-	-	-	479	-	(287)	-	-	192	-	-	192
Balance at 30 June 2018	238,847	62,896	-	(643)	19,349	10,789	46,488	-	377,726	75,388	2,313	455,427

The notes from 1 to 16 form an integral part of this interim condensed consolidated financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF
 CASH FLOWS (UNAUDITED)

For the period from 1 January 2019 to 30 June 2019

	Notes	Six months ended 30 June	
		2019 KD'000s	2018 KD'000s
OPERATING ACTIVITIES			
Net profit for the period		28,875	25,841
Adjustments for:			
Provision for impairment	4	14,959	15,359
Depreciation		3,885	2,095
Foreign currency translation adjustments		(329)	893
Unrealised gain from financial assets at fair value through profit or loss		(892)	(620)
Gain on deemed acquisition in an associate	3	(982)	-
Share of results of associates	3	(1,580)	(608)
Dividend income	3	(697)	(540)
Operating profit before changes in operating assets and liabilities		43,239	42,420
Changes in operating assets and liabilities:			
Deposits with Central Bank of Kuwait		50,435	20,445
Deposits with other banks		22,552	197,245
Islamic financing to customers		(293,422)	(263,254)
Other assets		(2,183)	(7,827)
Due to banks		31,008	52,861
Depositors' accounts		259,878	143,658
Other liabilities		278	(3,255)
Net cash generated from operating activities		111,785	182,293
INVESTING ACTIVITIES			
Proceeds from sale of financial assets at fair value through profit or loss		33,498	14,722
Purchase of financial assets at fair value through profit or loss		(35,924)	(18,575)
Purchase of financial assets at fair value through other comprehensive income		(133,997)	(79,337)
Proceeds from sale of financial asset at fair value through other comprehensive income		111,606	771
Purchase of investment properties		-	(1,385)
Proceeds from sale of investment properties		-	25,514
Purchase of property and equipment		(7,424)	(2,293)
Dividend income received		697	540
Dividend received from associate		83	202
Net cash used in investing activities		(31,461)	(59,841)
FINANCING ACTIVITIES			
Proceeds from increase in share capital	16	131,664	-
Cost directly related to increase in share capital		(108)	-
Profit paid on perpetual Tier 1 Sukuk		(2,563)	(2,544)
Dividends paid		(19,106)	(15,900)
Proceeds from exercise of share options		175	192
Net cash generating from /(used in) financing activities		110,062	(18,252)
Net increase in cash and cash equivalents		190,386	104,200
Cash and cash equivalents at beginning of the period		164,767	131,378
Cash and cash equivalents at end of the period	8	355,153	235,578

The notes from 1 to 16 form an integral part of this interim condensed consolidated financial information.

For the period from 1 January 2019 to 30 June 2019

1. INCORPORATION AND ACTIVITIES

Boubyan Bank K.S.C.P. (“the Bank”) is a Kuwaiti public shareholding company incorporated on 21 September 2004, in accordance with the Commercial Companies Law in the State of Kuwait, by Amiri Decree No. 88 and in accordance with the rules and regulations of the Central Bank of Kuwait (“CBK”) (Law No. 30 of 2003).

The Bank’s shares were listed on the Kuwait Stock Exchange on 15 May 2006.

The Bank was licensed by the CBK on 28 November 2004. The Bank is principally engaged in providing banking services, in accordance with Codes of the Islamic Sharia’a, as approved by the Bank’s Sharia’a Supervisory Board.

On 31 July 2012; the Bank became a subsidiary of National Bank of Kuwait K.S.C.P. (“the Parent Company”).

This interim condensed consolidated financial information as at and for the six months period ended 30 June 2019 incorporates the financial information of the Bank and its principal operating subsidiaries, Boubyan Takaful Insurance Company K.S.C. (Closed) and Boubyan Capital Investment Company K.S.C. (Closed), (together referred to as “the Group”) and the Group’s interests in associates.

The address of the Bank’s registered office is P.O. Box 25507, Safat 13116, State of Kuwait.

This interim condensed consolidated financial information was authorised for issue by the Board of Directors on 7 July 2019.

2. SIGNIFICANT ACCOUNTING POLICIES**2.1 Basis of preparation**

The interim condensed consolidated financial information of the Group has been prepared in accordance with International Accounting Standard (IAS) 34, ‘Interim Financial Reporting’ except as noted below. The accounting policies used in the preparation of these interim condensed consolidated financial information are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2018 except for the changes described below arising from the adoption of IFRS 16 ‘Leases’ effective from 1 January 2019.

The annual consolidated financial statements for the year ended 31 December 2018 were prepared in accordance with 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 higher of the ECL on credit facilities computed under IFRS 9 according to the CBK guidelines or the provisions as required by CBK instructions; the consequent impact on related disclosures; and the adoption of all other requirements of International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standard Board (“IASB”).

The ECL for Islamic financing as at 30 June 2019 is **KD 52,104** thousand (31 December 2018: KD 49,914 thousand) which is lower than the provision for impairment of Islamic financing to customers required by CBK.

The interim condensed consolidated financial information does not contain all information and disclosures required for the annual consolidated financial statements prepared in accordance with IFRS as adopted for use by the State of Kuwait, and should be read in conjunction with the Group’s annual consolidated financial statements as at 31 December 2018. Further, results for interim periods are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2019.

For the period from 1 January 2019 to 30 June 2019

2. SIGNIFICANT ACCOUNTING POLICIES (continued)**2.2 Changes in accounting policies and disclosures****Adoption of IFRS 16 ‘Leases’**

The Group has adopted IFRS 16 issued in January 2016 starting from 1 January 2019. IFRS 16 replaces IAS 17, IFRIC 4, SIC-15 and SIC-27. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. The Group, as a lessee, has adopted the following accounting policy in respect of its leases:

At inception of a contract, the Group assesses whether the contract is a lease. A contract is a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for a consideration. If the contract is identified as a lease, the Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred. The right-of-use asset is subsequently depreciated using the straight-line method over the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Group’s incremental borrowing rate. The lease liability is subsequently measured at amortised cost using the effective yield method.

3. NET INVESTMENT INCOME

	Three months ended 30 June		Six months ended 30 June	
	2019	2018	2019	2018
	KD’000s	KD’000s	KD’000s	KD’000s
Dividend income	474	384	697	540
Net gain from financial assets at fair value through profit or loss	687	799	915	1,110
Gain on deemed acquisition in an associate	-	-	982	-
Income /(loss) from investment properties	95	(140)	199	347
Share of results of associates	420	688	1,580	608
	1,676	1,731	4,373	2,605

4. PROVISION FOR IMPAIRMENT

	Three months ended 30 June		Six months ended 30 June	
	2019	2018	2019	2018
	KD’000s	KD’000s	KD’000s	KD’000s
Provision charge for Islamic financing to customers	6,205	3,028	13,806	7,923
ECL – Other financial assets	590	-	590	58
Impairment loss on investments in associates	-	5,048	-	7,378
Impairment loss on other assets	563	-	563	-
	7,358	8,076	14,959	15,359

5. TAXATION

	Three months ended 30 June		Six months ended 30 June	
	2019	2018	2019	2018
	KD’000s	KD’000s	KD’000s	KD’000s
Contribution to Kuwait Foundation for the Advancement of Sciences (“KFAS”)	152	117	288	237
National Labour Support Tax (“NLST”)	416	345	778	686
Zakat (Based on Zakat law no: 46/2006)	166	134	311	270
	734	596	1,377	1,193

For the period from 1 January 2019 to 30 June 2019

6. IMPACT OF ADOPTION OF IFRS 16

The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated. Lease liabilities and right-of-use assets were both recorded at the present value of future lease payments, thus no impact was recorded on the opening retained earnings.

The Group presents right-of-use assets in property and equipment and lease liabilities in other liabilities in the interim condensed consolidated statement of financial position. The carrying value of the right of use assets and lease liabilities as at 30 June 2019 amounted to **KD 10,968** thousand and **KD 8,561** thousand respectively.

Depreciation charge for the right-of-use assets for the period amounted to **KD 1,641** thousand and is included in depreciation in the interim condensed consolidated statement of profit and loss. Rent expenses included in general and administrative expenses is lower to this extent during the period as a result of applying IFRS 16.

7. BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit for the period attributable to the equity holders of the Bank by the weighted average number of shares outstanding during the period.

Diluted earnings per share is calculated by dividing the net profit for the period attributable to the equity holders of the Bank by the weighted average number of shares outstanding during the period plus the weighted average number of share that would be issued on the conversion of all the dilutive potential shares into shares. The diluted earnings per share arising from the issue of employee share option does not result in any change to the reported basic earnings per share.

	Three months ended 30 June		Six months ended 30 June	
	2019	2018	2019	2018
Net profit for the period attributable to the equity holders of the Bank (KD'000s)	14,246	13,178	28,865	25,741
Less: profit payment on Perpetual Tier 1 Sukuk (KD'000s)	(2,563)	(2,544)	(2,563)	(2,544)
	11,683	10,634	26,302	23,197
Weighted average number of shares outstanding during the period net of treasury shares (thousands of shares)	2,847,211	2,660,098	2,754,636	2,659,719
Basic and diluted earnings per share attributable to the equity holders of the Bank (fils)	4.10	4.00	9.55	8.72

Earnings per share for the prior period were 4.46 fils and 9.72 fils, before retroactive adjustment to the number of shares following the bonus issue and rights shares issued in 2019 (note 16).

8. CASH AND CASH EQUIVALENTS

	30 June	(Audited) 31 December	30 June
	2019	2018	2018
	KD'000s	KD'000s	KD'000s
Cash and balances with banks	145,888	83,805	68,833
Placements with banks maturing within seven days	209,265	80,962	166,745
	355,153	164,767	235,578

For the period from 1 January 2019 to 30 June 2019

9. INVESTMENT SECURITIES

	(Audited)	
30 June 2019	31 December 2018	30 June 2018
KD'000s	KD'000s	KD'000s
Investment in Sukuk - FVOCI	309,339	254,888
Financial assets at fair value through profit or loss	42,760	43,412
Financial assets at fair value through other comprehensive income	30,740	15,393
	418,369	313,693

	(Audited)	
30 June 2019	31 December 2018	30 June 2018
KD'000s	KD'000s	KD'000s
Financial assets at fair value through profit or loss		
Investment in unquoted equity funds	42,760	43,412
	45,903	43,412

	(Audited)	
30 June 2019	31 December 2018	30 June 2018
KD'000s	KD'000s	KD'000s
Financial assets at fair value through other comprehensive income		
Investment in unquoted equity securities	30,574	15,182
Investment in quoted equity securities	166	211
	30,740	15,393

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
 INFORMATION (UNAUDITED)

For the period from 1 January 2019 to 30 June 2019

10. RELATED PARTY TRANSACTIONS

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 and the Parent Company including their board member, key management personnel, branches, associates and subsidiaries. Balances with related parties arise from commercial transactions in the normal course of business on an arm's length basis and are included within the following financial information captions:

	Number of board members or executive officers			Number of related parties			(Audited)		
	30 June	31 December	30 June	30 June	31 December	30 June	30 June	31 December	30 June
	2019	2018	2018	2019	2018	2018	2019	2018	2018
							KD'000s	KD'000s	KD'000s
Islamic financing to customers	4	7	6	1	2	3	11,577	5,157	4,582
Depositors' accounts	8	5	15	11	9	11	5,380	3,028	8,537
Letters of guarantee and letters of credit	-	-	1	-	-	-	-	-	6
Murabaha and other Islamic financing income							226	231	136
Finance cost and distribution to depositors							(68)	(87)	(55)
Parent Company									
Due from banks							55,458	43,139	66,827
Due to banks							39,801	59,140	22,354
Murabaha and other Islamic financing income							745	1,617	1,098
Finance cost and distribution to depositors							(268)	(664)	(209)

10. RELATED PARTY TRANSACTIONS (CONTINUED)**Compensation of key management personnel**

Details of compensation to key management comprise the following:

	Three months ended		Six months ended	
	30 June		30 June	
	2019	2018	2019	2018
	KD'000s	KD'000s	KD'000s	KD'000s
Short-term benefits	531	518	1,088	1,019
Post-employment benefits	84	88	213	206
Share based compensation	152	148	308	297
	767	754	1,609	1,522

11. TREASURY SHARES

The Bank held the following treasury shares:

	30 June 2019	(Audited)	
		31 December 2018	30 June 2018
Number of treasury shares	331,112	2,027,659	2,027,659
Treasury shares as a percentage of total issued shares - %	0.0115%	0.0849%	0.0849%
Cost of treasury shares – KD thousand	54	643	643
Market value of treasury shares – KD thousand	192	1,135	1,014
Weighted average of market value per share – KD	0.571	0.508	0.480

12. OTHER RESERVES

	Voluntary reserve	Share based payment reserve	Fair value reserve	Foreign currency translation reserve	Total
	KD'000s	KD'000s	KD'000s	KD'000s	KD'000s
Balance at 1 January 2019	24,158	1,381	3,543	(9,917)	19,165
Other comprehensive income for the period	-	-	1,281	431	1,712
Total comprehensive income for the period	-	-	1,281	431	1,712
Sale of treasury shares	-	(414)	-	-	(414)
Balance at 30 June 2019	24,158	967	4,824	(9,486)	20,463
Balance at 1 January 2018 (as previously presented)	18,510	1,671	3,859	(9,276)	14,764
Impact of adopting IFRS 9 at 1 January 2018	-	-	798	-	798
Balance as at 1 January 2018 (<i>restated</i>)	18,510	1,671	4,657	(9,276)	15,562
Other comprehensive loss for the period	-	-	(1,933)	(2,553)	(4,486)
Total comprehensive loss for the period	-	-	(1,933)	(2,553)	(4,486)
Sale of treasury shares	-	(287)	-	-	(287)
Balance at 30 June 2018	18,510	1,384	2,724	(11,829)	10,789

13. CONTINGENCIES AND COMMITMENTS

At the financial reporting date there were outstanding contingencies and commitments entered in the ordinary course of business in respect of the following:

	(Audited)		
	30 June 2019	31 December 2018	30 June 2018
	KD'000s	KD'000s	KD'000s
Guarantees	264,271	264,940	244,510
Acceptances and letters of credit	91,935	91,632	94,842
Other commitments	9,278	9,278	1,305
	365,484	365,850	340,657

14. SEGMENT REPORTING

Operating segments are identified on the basis of internal reports that are regularly reviewed by the decision makers in order to allocate resources to the segments and to assess their performance. The operating segments are divided as either business segments or geographical segments.

Business Segments

For management purposes, the Bank is organized into the following four major business segments:

Consumer banking: Provides a diversified range of products and services to individuals and institutional customers. The range includes consumer finance, credit cards, deposits and other branch related services.

Corporate banking: Provides Murabaha, Ijarah, trade service and other related services to business and corporate customers.

Investment banking: Principally handling direct investments, investment in associates, local and international real estate investment and asset management.

Treasury: Principally handling local and international Murabaha and other Islamic financing, primarily with banks, as well as the management of the Bank's funding operations.

Group centre: Includes other group activities and residual in respect of transfer pricing and inter segment allocation.

	Consumer banking	Corporate banking	Investment banking	Treasury	Group centre	Total
	KD'000s	KD'000s	KD'000s	KD'000s	KD'000s	KD'000s
Six months ended 30 June 2019						
Net financing income/(loss)	32,537	16,024	(1,751)	5,340	6,257	58,407
Operating income	36,394	21,122	5,847	7,082	3,425	73,870
Net profit/(loss) for the period	17,379	7,309	3,703	6,810	(6,326)	28,875
Total assets	1,550,316	2,480,927	169,187	550,176	42,334	4,792,940
Total liabilities	2,253,033	370,323	15,668	1,488,748	38,559	4,166,331
Six months ended 30 June 2018						
Net financing income/(loss)	32,052	19,815	(1,392)	4,827	4,148	59,450
Operating income	35,412	24,509	3,748	6,393	598	70,660
Net profit/(loss) for the period	19,111	17,622	(5,380)	6,082	(11,594)	25,841
Total assets	1,407,477	2,129,484	157,372	455,976	16,531	4,166,840
Total liabilities	1,792,461	285,927	20,293	1,591,527	21,205	3,711,413

15. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in orderly transactions between market participants at the measurement date. Fair values are obtained from quoted market prices, discounted cash flow models and other models as appropriate.

Fair value hierarchy

The table below analyses financial instruments measured at fair value by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: input other than quoted prices included within Level 1 that are observable, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs that are not based on observable market data (unobservable inputs).

	Level 1	Level 2	Level 3	Total
	KD'000s	KD'000s	KD'000s	KD'000s
30 June 2019				
Financial assets at fair value through profit or loss	-	45,903	-	45,903
Investment in Sukuk - FVOCI	341,494	-	-	341,494
Financial assets at fair value through other comprehensive income	186	-	30,786	30,972
	<u>341,680</u>	<u>45,903</u>	<u>30,786</u>	<u>418,369</u>
31 December 2018 (Audited)				
Financial assets at fair value through profit or loss	-	42,760	-	42,760
Investment in Sukuk - FVOCI	309,339	-	-	309,339
Financial assets at fair value through other comprehensive income	166	-	30,574	30,740
	<u>309,505</u>	<u>42,760</u>	<u>30,574</u>	<u>382,839</u>
30 June 2018				
Financial assets at fair value through profit or loss	-	43,412	-	43,412
Investment in Sukuk - FVOCI	254,888	-	-	254,888
Financial assets at fair value through other comprehensive income	211	-	15,182	15,393
	<u>255,099</u>	<u>43,412</u>	<u>15,182</u>	<u>313,693</u>

Fair values of all financial instruments are not materially different from their carrying values.

The movement in Level 3 of financial instrument during the period are as follows:

	At 1 January	Change in fair value	Additions/ transfers	Sale/ redemption	Exchange rate movements	At 30 June
	KD'000s	KD'000s	KD'000s	KD'000s	KD'000s	KD'000s
30 June 2019:						
Assets measured at fair value						
Financial assets at fair value through other comprehensive income	30,574	30	-	(78)	260	30,786
	<u>30,574</u>	<u>30</u>	<u>-</u>	<u>(78)</u>	<u>260</u>	<u>30,786</u>
30 June 2018:						
Assets measured at fair value						
Financial assets at fair value through profit or loss	3,477	-	(3,477)	-	-	-
Available for sale investments	9,788	-	(9,788)	-	-	-
Financial assets at fair value through other comprehensive income	-	(15)	15,255	(88)	30	15,182
	<u>13,265</u>	<u>(15)</u>	<u>1,990</u>	<u>(88)</u>	<u>30</u>	<u>15,182</u>

15. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The impact on the interim condensed consolidated statement of financial position or the interim condensed consolidated statement of profit and loss and other comprehensive income would be immaterial if the relevant risk variables used to fair value the securities classified under level 2 and level 3 were altered by 5 percent.

16. ANNUAL GENERAL ASSEMBLY MEETING

The Annual General Assembly meeting of the shareholders held on 10 March 2019 approved **5%** bonus shares (2017: 5%) and a cash dividend of **8** fils per share (2017: 7 fils per share) for the year ended 31 December 2018. The bonus shares increased the number of issued and fully paid up shares by **119,423,580** shares (2017: 113,736,743 shares) and increase in share capital by **KD 11,942 thousand** (2017: KD 11,374 thousand).

During the current period, after obtaining necessary approvals, the Bank increased its share capital through the rights issue of **376,184,277** shares, each with a nominal value of 100 fils and premium of 250 fils. The rights issue has been fully subscribed resulting in an increase in share capital of **KD 37,618 thousand** and share premium of **KD 94,046 thousand**.