

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



**INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION
AND INDEPENDENT AUDITORS' REVIEW REPORT FOR THE PERIOD
FROM 1 JANUARY 2020 TO 30 JUNE 2020
(UNAUDITED)**

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

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



For the period from 1 January 2020 to 30 June 2020

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)	7-16

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 2020, 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.

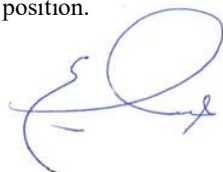
Conclusion

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.

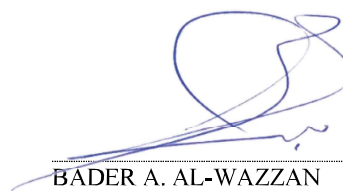
Report on other Legal and Regulatory Requirements

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



ABDULKARIM AL SAMDAN
LICENCE NO. 208 A
EY
AL AIBAN, AL OSAIMI & PARTNERS



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

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


For the period from 1 January 2020 to 30 June 2020

	Notes	Three months ended 30 June		Six months ended 30 June	
		2020	2019	2020	2019
		KD'000s	KD'000s	KD'000s	KD'000s
Income					
Murabaha and other Islamic financing income		55,877	51,032	113,731	99,807
Finance cost and distribution to depositors		(22,170)	(21,232)	(47,787)	(41,400)
Net financing income		33,707	29,800	65,944	58,407
Net investment income	4	1,058	1,676	4,142	4,373
Net fees and commission income		2,611	4,373	6,366	9,348
Net foreign exchange gain		728	807	3,015	1,742
Operating income		38,104	36,656	79,467	73,870
Staff costs		(9,993)	(8,814)	(21,704)	(17,807)
General and administrative expenses		(4,470)	(3,559)	(9,408)	(6,967)
Depreciation		(2,358)	(1,940)	(4,556)	(3,885)
Operating expenses		(16,821)	(14,313)	(35,668)	(28,659)
Operating profit before provision for impairment		21,283	22,343	43,799	45,211
Provision for impairment	5	(13,158)	(7,358)	(24,622)	(14,959)
Operating profit before deductions		8,125	14,985	19,177	30,252
Taxation	6	(842)	(734)	(1,554)	(1,377)
Net profit for the period		7,283	14,251	17,623	28,875
Attributable to:					
Equity holders of the Bank		6,916	14,246	17,143	28,865
Non-controlling interests		367	5	480	10
Net profit for the period		7,283	14,251	17,623	28,875
Basic and diluted earnings per share attributable to the equity holders of the Bank (fils)	7	1.42	3.91	4.80	9.07

The notes from 1 to 18 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 2020 to 30 June 2020

	Three months ended 30 June		Six months ended 30 June	
	2020	2019	2020	2019
	KD'000s	KD'000s	KD'000s	KD'000s
Net profit for the period	7,283	14,251	17,623	28,875
Other comprehensive income/(loss):				
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	18,965	(865)	(13,989)	1,032
Foreign currency translation adjustments	(1,698)	94	(2,304)	431
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	(4,604)	68	(5,623)	249
Other comprehensive income/(loss) for the period	12,663	(703)	(21,916)	1,712
Total comprehensive income/(loss) for the period	19,946	13,548	(4,293)	30,587
Attributable to:				
Equity holders of the Bank	21,295	13,543	(3,057)	30,577
Non-controlling interests	(1,349)	5	(1,236)	10
Total comprehensive income/(loss) for the period	19,946	13,548	(4,293)	30,587

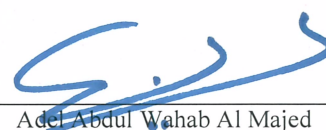
The notes from 1 to 18 form an integral part of this interim condensed consolidated financial information.

As at 30 June 2020

	Notes	30 June 2020 KD'000s	(Audited) 31 December 2019 KD'000s	30 June 2019 KD'000s
Assets				
Cash and balances with banks	8	200,760	232,393	145,888
Deposits with Central Bank of Kuwait		346,360	306,156	319,289
Deposits with other banks		296,338	427,347	217,783
Islamic financing to customers		4,518,638	3,728,772	3,541,346
Investment in Sukuk	9	491,614	306,315	341,494
Other investment securities	9	96,175	101,215	76,875
Investments in associates		4,611	33,144	31,334
Investment properties		46,352	46,555	24,697
Other assets		41,891	32,422	23,557
Property and equipment		88,530	86,229	70,677
Total assets		6,131,269	5,300,548	4,792,940
Liabilities and equity				
Liabilities				
Due to banks		470,435	236,480	128,224
Depositors' accounts		4,719,507	4,347,226	3,980,813
Sukuk issued	16	233,064	-	-
Other liabilities		106,070	63,661	57,294
Total liabilities		5,529,076	4,647,367	4,166,331
Equity				
Share capital		302,827	288,407	288,407
Share premium		156,942	156,942	156,942
Proposed bonus shares	17	-	14,420	-
Treasury shares	11	(54)	(54)	(54)
Statutory reserve		31,848	31,848	25,251
Other reserves	12	1,914	22,114	20,463
Retained earnings		2,120	35,817	57,887
Proposed cash dividends	17	-	25,954	-
Equity attributable to equity holders of the Bank		495,597	575,448	548,896
Perpetual Tier 1 Sukuk		75,388	75,388	75,388
Non-controlling interests		31,208	2,345	2,325
Total equity		602,193	653,181	626,609
Total liabilities and equity		6,131,269	5,300,548	4,792,940



 Mahmoud Yousef Al-Fulajj
Chairman



 Adel Abdul Wahab Al Majed
Vice Chairman & Chief Executive Officer

The notes from 1 to 18 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 2020 to 30 June 2020

	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 2020	288,407	156,942	14,420	(54)	31,848	22,114	35,817	25,954	575,448	75,388	2,345	653,181
Profit for the period	-	-	-	-	-	-	17,143	-	17,143	-	480	17,623
Other comprehensive loss for the period	-	-	-	-	-	(20,200)	-	-	(20,200)	-	(1,716)	(21,916)
Total comprehensive (loss)/income for the period	-	-	-	-	-	(20,200)	17,143	-	(3,057)	-	(1,236)	(4,293)
Acquisition of non-controlling interests	-	-	-	-	-	-	-	-	-	-	30,057	30,057
Modification loss of deferral of financing instalments (note 2)	-	-	-	-	-	-	(48,232)	-	(48,232)	-	-	(48,232)
Dividends paid (note 17)	-	-	-	-	-	-	-	(25,954)	(25,954)	-	-	(25,954)
Profit paid on Perpetual Tier 1 Sukuk	-	-	-	-	-	-	(2,608)	-	(2,608)	-	-	(2,608)
Other movement in non-controlling interests	-	-	-	-	-	-	-	-	-	-	42	42
Issue of bonus shares (note 17)	14,420	-	(14,420)	-	-	-	-	-	-	-	-	-
Balance at 30 June 2020	302,827	156,942	-	(54)	31,848	1,914	2,120	-	495,597	75,388	31,208	602,193
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 17)	-	-	-	-	-	-	(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 17)	11,942	-	(11,942)	-	-	-	-	-	-	-	-	-
Increase in share capital	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

The notes from 1 to 18 form an integral part of this interim condensed consolidated financial information.

BOUBYAN BANK K.S.C.P. AND SUBSIDIARIES
STATE OF KUWAIT

INTERIM CONDENSED CONSOLIDATED STATEMENT OF
CASH FLOWS (UNAUDITED)

For the period from 1 January 2020 to 30 June 2020



	Notes	Six months ended 30 June	
		2020 KD'000s	2019 KD'000s
OPERATING ACTIVITIES			
Net profit for the period		17,623	28,875
Adjustments for:			
Provision for impairment	5	24,622	14,959
Depreciation		4,556	3,885
Foreign currency translation adjustments		(4,999)	(329)
Net gain from financial assets at fair value through profit or loss	4	(550)	(892)
Gain on deemed acquisition in an associate		-	(982)
Unrealised loss from change in fair value of investment properties	4	811	-
Net gain on acquisition of subsidiary	3	(2,227)	-
Share of results of associates	4	(432)	(1,580)
Dividend income	4	(1,208)	(697)
Operating profit before changes in operating assets and liabilities		38,196	43,239
Changes in operating assets and liabilities:			
Deposits with Central Bank of Kuwait		10,809	50,435
Deposits with other banks		155,073	22,552
Islamic financing to customers		(339,309)	(293,422)
Other assets		21,170	(2,183)
Due to banks		179,187	31,008
Depositors' accounts		(87,257)	259,878
Other liabilities		15,629	278
Net cash (used in) / generated from operating activities		(6,502)	111,785
INVESTING ACTIVITIES			
Proceeds from sale of financial assets at fair value through profit or loss		23,339	33,498
Purchase of financial assets at fair value through profit or loss		(22,301)	(35,924)
Purchase of financial assets at fair value through other comprehensive income		(256,594)	(133,997)
Proceeds from sale of financial asset at fair value through other comprehensive income		108,737	111,606
Transaction costs related to acquisition of a subsidiary	3	(1,815)	-
Acquisition of a subsidiary, net of cash acquired	3	(325)	-
Purchase of investment properties		(97)	-
Purchase of property and equipment		(5,314)	(7,424)
Dividend income received	4	1,208	697
Dividend received from associate		-	83
Net cash used in investing activities		(153,162)	(31,461)
FINANCING ACTIVITIES			
Proceeds from increase in share capital		-	131,664
Cost directly related to increase in share capital		-	(108)
Profit paid on perpetual Tier 1 Sukuk		(2,608)	(2,563)
Dividends paid		(25,954)	(19,106)
Proceeds from exercise of share options		-	175
Net movement of non-controlling interest		42	-
Issue of Global Mid-term Sukuk	16	228,600	-
Net cash generating from financing activities		200,080	110,062
Net increase in cash and cash equivalents		40,416	190,386
Cash and cash equivalents at beginning of the period		509,737	164,767
Cash and cash equivalents at end of the period	8	550,153	355,153

The notes from 1 to 18 form an integral part of this interim condensed consolidated financial information.

For the period from 1 January 2020 to 30 June 2020

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 published on April 18th 2004, in accordance with the rules and regulations of the Central Bank of Kuwait (“CBK”).

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

The Bank was licensed by the Central Bank of Kuwait to do business 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.

The Bank is a subsidiary of National Bank of Kuwait S.A.K.P (“the Parent Company”).

This interim condensed consolidated financial information as at and for the six months period ended 30 June 2020 incorporates the financial information of the Bank and its principal operating subsidiaries, BLME Holdings plc, 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 12 July 2020.

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 2019.

The annual consolidated financial statements for the year ended 31 December 2019 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 guideline 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 2020 is **KD 82,489 thousand** (31 December 2019: KD 53,981 thousand and 30 June 2019 is KD 52,104 thousand) which is lower than the provision for impairment of Islamic finance to customers required by CBK.

Further, during the period ended 30 June 2020, CBK extended their regulations to require that modification losses arising from postponement of instalments of consumer and Housing finance, credit cards and facilities to SMEs for a period of six months in response to the economic impact of Covid -19 are to be recognized in retained earnings instead of consolidated statement profit or loss (Note 18).

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 2019. Further, results for interim periods are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2020.

For the period from 1 January 2020 to 30 June 2020

3. BUSINESS COMBINATION

During the period, the Group acquired an additional equity interest in BLME Holdings plc (“BLME”) (previously classified as “investment in associate”), resulting in an increase in its effective ownership from **27.91%** to **71.08%**. Having obtained control, the Group reclassified its investment in BLME from associate to subsidiary and consolidated the financial statements of BLME from 27 January 2020 (“date of acquisition”)

As the business combination was achieved in stages, in accordance with IFRS 3: Business Combination, the Group re-measured its previously held equity interest in BLME at the acquisition date fair value.

The acquisition of BLME has been accounted based on provisional values of identifiable assets and liabilities on the date of acquisition and the management is in the process of determining the fair values of assets and liabilities acquired.

The provisional fair values of assets acquired and liabilities assumed are summarized as follows:

	<u>KD ‘000s</u>
Assets	
Cash and balances with banks	28,602
Deposits with other banks	3,001
Islamic financing to customers	522,700
Investment in Sukuk	33,140
Other investment securities	1,154
Investments in associates	484
Other assets	26,611
Total assets	<u>615,692</u>
Liabilities	
Due to banks	118,425
Depositors’ accounts	395,881
Other liabilities	10,592
Total liabilities	<u>524,898</u>
Net assets	90,794
Non-controlling interests	(3,274)
Provisional fair value of net assets	<u>87,520</u>
<i>Analysis of cash flows on acquisition</i>	<u>KD 000’s</u>
Cash and cash equivalents in subsidiary acquired	28,602
Less: Consideration paid	(28,927)
Cash outflow on acquisition	<u>(325)</u>

The consideration paid, non-controlling interest and fair value of previous held equity interest relating to the above business combination amounted to **KD 28,927 thousand**, **KD 25,312 thousand** and **KD 16,735 thousand** respectively. The acquisition resulted in a net gain of **KD 2,227 thousand** net of loss of re-measurement of previously held equity interest in BLME of **KD 12,504 thousand** and transaction costs of **KD 1,815 thousand** which is included under “Net investment income” in the interim condensed consolidated statement of profit or loss.

The interim condensed consolidated statement of profit or loss of the Group for the six months period ended 30 June 2020, includes operating income of **KD 2,654 thousand** and profit attributable to the equity holders of the Bank amounting to **KD 971 thousand** from BLME.

Had the business combinations taken place at the beginning of the year, revenue of the Group and profit attributable to equity holders of the Bank, would have not have been materially different.

For the period from 1 January 2020 to 30 June 2020

4. NET INVESTMENT INCOME

	Three months ended 30 June		Six months ended 30 June	
	2020	2019	2020	2019
	KD'000s	KD'000s	KD'000s	KD'000s
Dividend income	713	474	1,208	697
Net gain from financial assets at fair value through profit or loss	1,012	673	550	915
Net (loss)/gain from sale of debt instrument at financial assets at fair value through other comprehensive income	(285)	14	(226)	-
Gain on deemed acquisition in an associate	-	-	-	982
Unrealised loss from change in fair value of investment properties	(811)	-	(811)	-
Net rental income from investment properties	392	95	780	199
Net loss on sale of Investment property	(18)	-	(18)	-
Net gain on business combination (Note 3)	-	-	2,227	-
Share of results of associates	55	420	432	1,580
	1,058	1,676	4,142	4,373

5. PROVISION FOR IMPAIRMENT

	Three months ended 30 June		Six months ended 30 June	
	2020	2019	2020	2019
	KD'000s	KD'000s	KD'000s	KD'000s
Provision charge for Islamic financing to customers	13,445	6,205	23,945	13,806
ECL – Other financial assets	(287)	590	677	590
Impairment loss on other assets	-	563	-	563
	13,158	7,358	24,622	14,959

6. TAXATION

	Three months ended 30 June		Six months ended 30 June	
	2020	2019	2020	2019
	KD'000s	KD'000s	KD'000s	KD'000s
Contribution to Kuwait Foundation for the Advancement of Sciences (“KFAS”)	61	152	162	288
National Labour Support Tax (“NLST”)	200	416	479	778
Zakat (Based on Zakat law no: 46/2006)	80	166	192	311
Overseas tax	501	-	721	-
	842	734	1,554	1,377

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.

	Three months ended 30 June		Six months ended 30 June	
	2020	2019	2020	2019
Net profit for the period attributable to the equity holders of the Bank (KD'000s)	6,916	14,246	17,143	28,865
Less: profit payment on Perpetual Tier 1 Sukuk (KD'000s)	(2,608)	(2,563)	(2,608)	(2,563)
	4,308	11,683	14,535	26,302
Weighted average number of shares outstanding during the period net of treasury shares (thousands of shares)	3,027,921	2,991,398	3,027,936	2,898,824
Basic and diluted earnings per share attributable to the equity holders of the Bank (fils)	1.42	3.91	4.80	9.07

Earnings per share for the prior period were 4.10 fils and 9.55 fils, before retroactive adjustment to the number of shares following the bonus issue (note 17).

For the period from 1 January 2020 to 30 June 2020

8. CASH AND CASH EQUIVALENTS

	(Audited)	
30 June 2020	31 December 2019	30 June 2019
KD'000s	KD'000s	KD'000s
Cash and balances with banks	232,393	145,888
Placements with banks maturing within seven days	277,344	209,265
	509,737	355,153

9. INVESTMENT SECURITIES

	(Audited)	
30 June 2020	31 December 2019	30 June 2019
KD'000s	KD'000s	KD'000s
Investment in Sukuk - FVOCI	306,315	341,494
Financial assets at fair value through profit or loss	80,440	45,903
Financial assets at fair value through other comprehensive income	20,775	30,972
	407,530	418,369

	(Audited)	
30 June 2020	31 December 2019	30 June 2019
KD'000s	KD'000s	KD'000s
Financial assets at fair value through profit or loss		
Investment in unquoted equity funds	80,440	45,903
	80,468	45,903

	(Audited)	
30 June 2020	31 December 2019	30 June 2019
KD'000s	KD'000s	KD'000s
Financial assets at fair value through other comprehensive income		
Investment in unquoted equity securities	20,624	30,786
Investment in quoted equity securities	151	186
	20,775	30,972

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
 INFORMATION (UNAUDITED)

For the period from 1 January 2020 to 30 June 2020

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
	2020	2019	2019	2020	2019	2019	2020	2019	2019
							KD'000s	KD'000s	KD'000s
Islamic financing to customers	5	7	4	-	1	1	132	14,469	11,577
Depositors' accounts	5	5	8	13	12	11	4,354	3,801	5,380
Letters of guarantee and letters of credit	-	-	-	1	-	-	356	-	-
Murabaha and other Islamic financing income							14	459	226
Finance cost and distribution to depositors							(18)	(98)	(68)
Parent Company									
Due from banks							82,825	181,080	55,458
Due to banks							170,799	5,735	39,801
Murabaha and other Islamic financing income							1,481	1,405	745
Finance cost and distribution to depositors							(1,517)	(1,170)	(268)

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	
	2020	2019	2020	2019
	KD'000s	KD'000s	KD'000s	KD'000s
Short-term benefits	728	531	1,384	1,088
Post-employment benefits	188	84	330	213
Deferred compensation	465	152	636	308
	1,381	767	2,350	1,609

11. TREASURY SHARES

The Bank held the following treasury shares:

	30 June	(Audited)	30 June
	2020	31 December 2019	2019
Number of treasury shares	368,687	331,112	331,112
Treasury shares as a percentage of total issued shares - %	0.01218%	0.01148%	0.0115%
Cost of treasury shares – KD thousand	54	54	54
Market value of treasury shares – KD thousand	196	212	192
Weighted average of market value per share – KD	0.554	0.578	0.571

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 2020	30,468	967	167	(9,488)	22,114
Other comprehensive loss for the period	-	-	(19,588)	(612)	(20,200)
Total comprehensive loss for the period	-	-	(19,588)	(612)	(20,200)
Balance at 30 June 2020	30,468	967	(19,421)	(10,100)	1,914
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

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 2020	31 December 2019
	KD'000s	KD'000s
Guarantees	275,458	271,839
Acceptances and letters of credit	94,670	90,184
Other commitments	5,553	2,032
	375,681	364,055
		30 June 2019
		KD'000s
		264,271
		91,935
		9,278
		365,484

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 and housing 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 asset and wealth management, direct investments, investment in associates, local and international real estate investments.

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 2020						
Net financing income	34,769	21,616	3,019	3,562	2,978	65,944
Operating income	36,541	24,643	9,898	6,577	1,808	79,467
Net profit/(loss) for the period	16,956	20,641	2,845	6,278	(29,097)	17,623
Total assets	1,644,935	2,891,430	805,986	755,701	33,217	6,131,269
Total liabilities	2,629,242	368,787	578,421	1,669,318	283,308	5,529,076
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

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 or 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 2020				
Financial assets at fair value through profit or loss	-	43,519	36,949	80,468
Investment in Sukuk - FVOCI	491,614	-	-	491,614
Financial assets at fair value through other comprehensive income	186	-	15,521	15,707
	<u>491,800</u>	<u>43,519</u>	<u>52,470</u>	<u>587,789</u>
31 December 2019 (Audited)				
Financial assets at fair value through profit or loss	-	38,578	41,862	80,440
Investment in Sukuk - FVOCI	306,315	-	-	306,315
Financial assets at fair value through other comprehensive income	151	-	20,624	20,775
	<u>306,466</u>	<u>38,578</u>	<u>62,486</u>	<u>407,530</u>
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>

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 2020:						
Assets measured at fair value						
Financial assets at fair value through profit or loss	41,862	305	6,023	(11,568)	327	36,949
Financial assets at fair value through other comprehensive income	20,624	(5,122)	1,522	(1,392)	(111)	15,521
	<u>62,486</u>	<u>(4,817)</u>	<u>7,545</u>	<u>(12,960)</u>	<u>216</u>	<u>52,470</u>
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>

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. GLOBAL MEDIUM TERM SUKUK (SUKUK ISSUED).

During 2019, the Bank established a USD 1 billion Global Medium Term Sukuk programme (“GMTN programme”). On 18 February 2020, the Bank issued senior unsecured Sukuk amounting to **USD 750 million** due in February 2025 under the GMTN programmed through a wholly owned special purpose vehicle. These Sukuk were issued at 100 per cent of nominal value and carry a fixed profit rate at **2.593%** per annum payable semi-annually in arrears.

17. ANNUAL GENERAL ASSEMBLY MEETING

The Annual General Assembly meeting of the shareholders held on 8 March 2020 approved **5%** bonus shares (2018: 5%) and a cash dividend of **9 fils** per share (2018: 8 fils per share) for the year ended 31 December 2019. The cash dividend is amounting to **KD 25,954 thousand** (2018: KD 19,092 thousand). The bonus shares increased the number of issued and fully paid up shares by **144,203,973** shares (2019: 119,423,580 shares) and increase in share capital by **KD 14,420 thousand** (2019: KD 11,942 thousand). The approved dividends and bonus shares was distributed on 14 April 2020.

18. IMPACT OF COVID-19

The COVID-19 pandemic spread rapidly across global geographies causing significant disruption to business and economic activities and bringing unprecedented uncertainties to the global economic environment. Fiscal and monetary authorities worldwide launched extensive responses designed to mitigate the severe consequences of the pandemic.

Covid-19 support measures

In response to the crisis the Central Bank of Kuwait (CBK) implemented a number of measures targeted at reinforcing the banking sectors ability to play a vital role in the economy. These measures include, but not limited to, the expansion of lending capacity, strengthening financing capabilities, providing direction in lending to productive economic sectors and in the provision of liquidity to impacted customers. Some of the important measures are given below:

- Decreased the Liquidity Coverage Ratio (LCR) from 100% to 80%
- Decreased the Net Stable Financing Ratio (NSFR) from 100% to 80%
- Decreased the regulatory Liquidity Ratio from 18% to 15%
- Increased the limit for maximum negative cumulative gap for liquidity
- Released Capital conservation buffer of 2.5% of risk-weighted assets in the form of CET1
- Decreased the risk weights for lending to SMEs from 75% to 25% to be applied in the calculation of risk-weighted assets
- Increased the limit for maximum permissible financing (Finance-to-Deposits Ratio) from 90% to 100% of deposits
- Increased finance-to-value limits for finance granted to individuals for the purpose of purchasing and/or developing properties
- Provision of finance by banks at concessional profit rates to SMEs and other companies impacted by the Covid-19 (Emergency Line of Credit programme).
- Postpone amounts due from corporate customers impacted by Covid-19 for a period of six months effective from March 2020.

Deferral of instalments for Consumer and Housing finance, credit cards and facilities to SMEs

Kuwaiti banks announced postponement of payment of instalments of consumer and housing finance, credit cards and financing facilities to SMEs for a period of six months effective from April 2020 without charging additional profit for such deferral. The instalment deferrals are considered as short-term liquidity support to address borrower’s potential cash-flow issues. Customers hold the option not to participate in this scheme

The Group implemented the deferral by postponing the instalments falling due within the six months period from 1 April 2020 to 30 September 2020 with a corresponding extension of the facility tenure. The instalments deferral resulted in a loss of **KD 48,232 thousand** to the Group arising from the modification of contractual cash-flows. The loss is charged to retained earnings in accordance with the Group’s accounting policy as stated in Note 2.

18. IMPACT OF COVID-19 (CONTINUED)**Expected Credit Loss (ECL) estimates**

The Group considered the potential impact of the uncertainties caused by the Covid-19 pandemic together with the associated economic support and relief measures of governments and central banks in its estimation of ECL requirements for the period ended 30 June 2020.

Significant increase in credit risk

The Group considered the following aspects to assess if there was significant increase in credit risk or objective evidence of impairment in the light of Covid-19 situation.

- Temporary financial difficulties of the borrowers are distinguished from longer-term or permanent impacts
- Borrowers operating in certain sectors or industries are likely to be more severely impacted
- Deferral of instalments or profit payments on financing facilities will not automatically trigger significant increase in credit risk
- Retail finance to certain customer segments are more likely to have significant increase in credit risk arising from job losses and pay cuts
- Significant corporate exposures are individually assessed to identify significant increase in credit risk as and when reliable data is available

The above assessment has resulted a staged downgrade of certain exposures and corresponding increase in ECL.

Macro-economic factors

The Group considered the effects of volatility witnessed in the range of macroeconomic factors and in the scenarios used for determination of ECL. In particular, given the continuing uncertainties and impact stemming from Covid-19, and considering that the situation is fast-evolving, the Group revised certain assumptions reflected through constructing a plausible forward-looking view of the macroeconomic factors. The Group applies appropriate probability weightages on three scenarios ('Baseline', 'Benign', 'Severe') which is combined with significantly conservative revised forecasts of macro-economic factors across all three scenarios when compared to year ended 31 December 2019. The Group also applied management overlay in assessing the ECL for the retail segment given that employees of specific industries in the private sector are expected to be most impacted due to Covid-19. These adjustments and management overlays resulted in significant increase in the amount of ECL requirements for the period ended 30 June 2020.

Notwithstanding the above, the ECL requirement for credit facilities estimated as at 30 June 2020 continues to be lower than the provisions required as per CBK instructions. In accordance with Group accounting policy, the higher amount, being the provision required as per CBK instructions, is therefore recognized as the provision requirement for credit losses on credit facilities.

Other impacts

The Group considered the potential impact of the current economic volatility on the reported amounts of the Group's financial and non-financial assets. The reported amounts best represent management's assessment based on observable information. Markets, however, remain volatile and asset carrying values remain sensitive to market fluctuations. The impact of the highly uncertain economic environment remains judgmental and the Group will accordingly continue to reassess its position and the related impact on a regular basis.