



**The Commercial Bank of Kuwait Group**

**Interim Condensed Consolidated Financial Information**

**30 September 2018  
(Unaudited)**

## **REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION TO THE BOARD OF DIRECTORS OF COMMERCIAL BANK OF KUWAIT K.P.S.C.**

### **Introduction**

We have reviewed the accompanying interim condensed consolidated statement of financial position of Commercial Bank of Kuwait K.P.S.C. ("the Bank") and its subsidiary (together called "the Group") as of 30 September 2018 and the related interim condensed consolidated statements of income, comprehensive income, for the three-month and nine-month periods then ended and the related interim condensed consolidated statement of changes in equity, and cash flows for the nine-month period then ended. Management 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 the 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 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 and its executive regulations, as amended, or of the Memorandum of Incorporation and Articles of Association of the Bank as amended, during the nine-month period ended 30 September 2018 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 and 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 Organization of Banking Business, and its related regulations during the nine-month period ended 30 September 2018, that might have had a material effect on the business of the Bank or on its financial position.



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9 October 2018


**INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

30 September 2018 (Unaudited)

		(Audited)	
	Note	30 September 2018 KD 000's	31 December 2017 KD 000's
<b>ASSETS</b>			
Cash and short term funds	5	684,164	509,202
Treasury and Central Bank bonds		350,194	493,542
Due from banks and other financial institutions	6	346,890	569,308
Loans and advances to customers		2,198,220	2,236,527
Investment securities	7	533,240	458,774
Premises and equipment		29,028	28,996
Intangible assets		3,506	3,506
Other assets		82,331	94,731
<b>TOTAL ASSETS</b>		<b>4,227,573</b>	<b>4,394,586</b>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
Due to banks		350,436	313,669
Due to other financial institutions		907,659	1,016,491
Customer deposits		2,071,893	2,204,211
Other borrowed funds		57,637	37,750
Other liabilities		155,303	167,445
<b>TOTAL LIABILITIES</b>		<b>3,542,928</b>	<b>3,739,566</b>
<b>EQUITY</b>			
<b>Equity attributable to shareholders of the Bank</b>			
Share capital		181,096	164,633
Proposed bonus shares		-	16,463
Treasury shares		(4,578)	(4,578)
Reserves		317,637	273,515
Retained earnings		189,660	174,724
Proposed dividend		-	29,435
<b>Non-controlling interests</b>		<b>830</b>	<b>828</b>
<b>TOTAL EQUITY</b>		<b>684,645</b>	<b>655,020</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>4,227,573</b>	<b>4,394,586</b>



Sheikh Ahmad Duajj Al Sabah  
Chairman



Elham Yousry Mahfouz  
Chief Executive Officer

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

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME**

Period ended 30 September 2018 (Unaudited)

	Note	Three months ended 30 September		Nine months ended 30 September	
		2018 KD 000's	2017 KD 000's	2018 KD 000's	2017 KD 000's
Interest income		36,476	33,876	105,501	98,316
Interest expense		(13,212)	(10,296)	(35,385)	(29,157)
<b>NET INTEREST INCOME</b>		<b>23,264</b>	<b>23,580</b>	<b>70,116</b>	<b>69,159</b>
Fees and commissions		9,713	10,133	29,686	29,730
Net gain from dealing in foreign currencies		2,028	1,100	5,491	2,443
Net gain from investment securities		17	92	37	2,941
Dividend income		100	422	4,239	4,050
Other operating income		1,326	1,203	4,587	2,554
<b>OPERATING INCOME</b>		<b>36,448</b>	<b>36,530</b>	<b>114,156</b>	<b>110,877</b>
Staff expenses		(4,358)	(9,680)	(17,305)	(20,854)
General and administrative expenses		(4,600)	(5,032)	(15,211)	(15,018)
Depreciation and amortisation		(107)	(28)	(153)	(52)
<b>OPERATING EXPENSES</b>		<b>(9,065)</b>	<b>(14,740)</b>	<b>(32,669)</b>	<b>(35,924)</b>
<b>OPERATING PROFIT BEFORE PROVISIONS</b>		<b>27,383</b>	<b>21,790</b>	<b>81,487</b>	<b>74,953</b>
Impairment and other provisions	8	(17,755)	(8,828)	(65,652)	(59,952)
<b>PROFIT BEFORE TAXATION</b>		<b>9,628</b>	<b>12,962</b>	<b>15,835</b>	<b>15,001</b>
Taxation		(425)	(507)	(588)	(523)
<b>NET PROFIT FOR THE PERIOD</b>		<b>9,203</b>	<b>12,455</b>	<b>15,247</b>	<b>14,478</b>
<b>Attributable to:</b>					
Shareholders of the Bank		9,191	12,447	15,232	14,439
Non-controlling interests		12	8	15	39
		<b>9,203</b>	<b>12,455</b>	<b>15,247</b>	<b>14,478</b>
Basic and diluted earnings per share attributable to shareholders of the Bank (fils)	9	5.1	6.9	8.5	8.0

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

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

Period ended 30 September 2018 (Unaudited)

	Three months ended 30 September		Nine months ended 30 September	
	<b>2018</b> <b>KD 000's</b>	2017 KD 000's	<b>2018</b> <b>KD 000's</b>	2017 KD 000's
Net profit for the period	<b>9,203</b>	12,455	<b>15,247</b>	14,478
<b>OTHER COMPREHENSIVE INCOME</b>				
<b>Items that will not be reclassified subsequently to consolidated statement of income</b>				
Equity securities classified as fair value through other comprehensive income:				
Net changes in fair value	<b>23,016</b>	-	<b>45,770</b>	-
<b>Items that are or may be reclassified subsequently to consolidated statement of income</b>				
Investment securities - available for sale:				
Net changes in fair value	-	18,935	-	30,821
Net gain (loss) on disposal / impairment of investment securities	-	3	-	(785)
Debt securities classified as fair value through other comprehensive income:				
Net changes in fair value	<b>399</b>	-	<b>(1,813)</b>	-
Net gain (loss) on disposal transferred to income statement	<b>16</b>	-	<b>(58)</b>	-
	<b>23,431</b>	18,938	<b>43,899</b>	30,036
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>32,634</b>	31,393	<b>59,146</b>	44,514
<b>Attributable to:</b>				
Shareholders of the Bank	<b>32,618</b>	31,385	<b>59,131</b>	44,483
Non-controlling interests	<b>16</b>	8	<b>15</b>	31
	<b>32,634</b>	31,393	<b>59,146</b>	44,514

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


**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

Period ended 30 September 2018 (Unaudited)

	KD 000's														
	Attributable to shareholders of the Bank														
	Share Capital	Proposed Bonus Shares	Treasury Shares	Reserves						Total Reserves	Retained Earnings	Proposed Dividend	Non-controlling Interests		Total
Share Premium				Statutory Reserve	General Reserve	Treasury Shares Reserve	Property Revaluation Reserve	Investment Valuation Reserve	Total				Interests	Total	
Balance at 1 January 2017	149,666	14,967	(3,740)	66,791	115,977	17,927	-	25,282	28,689	254,666	165,190	22,330	603,079	768	603,847
Total comprehensive income for the period	-	-	-	-	-	-	-	-	30,044	30,044	14,439	-	44,483	31	44,514
Treasury shares purchased	-	-	(838)	-	-	-	-	-	-	-	-	-	(838)	-	(838)
Treasury shares sold	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Bonus shares issued	14,967	(14,967)	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividend paid	-	-	-	-	-	-	-	-	-	-	-	(22,330)	(22,330)	-	(22,330)
Balance at 30 September 2017	164,633	-	(4,578)	66,791	115,977	17,927	-	25,282	58,733	284,710	179,629	-	624,394	799	625,193
<b>Balance at 1 January 2018</b>	<b>164,633</b>	<b>16,463</b>	<b>(4,578)</b>	<b>66,791</b>	<b>115,977</b>	<b>17,927</b>	<b>-</b>	<b>24,624</b>	<b>48,196</b>	<b>273,515</b>	<b>174,724</b>	<b>29,435</b>	<b>654,192</b>	<b>828</b>	<b>655,020</b>
Transition adjustment on the adoption of IFRS 9 at 1 January 2018 (note 3)	-	-	-	-	-	-	-	-	223	223	(296)	-	(73)	-	(73)
Restated balance at 1 January 2018	164,633	16,463	(4,578)	66,791	115,977	17,927	-	24,624	48,419	273,738	174,428	29,435	654,119	828	654,947
Total comprehensive income for the period	-	-	-	-	-	-	-	-	43,899	43,899	15,232	-	59,131	15	59,146
Bonus shares issued	16,463	(16,463)	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividend paid	-	-	-	-	-	-	-	-	-	-	-	(29,435)	(29,435)	(13)	(29,448)
<b>Balance at 30 September 2018</b>	<b>181,096</b>	<b>-</b>	<b>(4,578)</b>	<b>66,791</b>	<b>115,977</b>	<b>17,927</b>	<b>-</b>	<b>24,624</b>	<b>92,318</b>	<b>317,637</b>	<b>189,660</b>	<b>-</b>	<b>683,815</b>	<b>830</b>	<b>684,645</b>

Annual General Assembly of the shareholders' held on 31 March 2018 approved to distribute cash dividend of 18 fils per share amounting to KD 29,435 thousand (2016: 15 fils per share) and 10 bonus shares for every 100 shares held (2016: 10 bonus shares for every 100 shares held) for the year 2017. Subsequently, the cash dividend was paid and the bonus shares increased the number of shares by 164,632,764 thousand and share capital by KD 16,463 thousand.

The Extraordinary General Meeting of shareholders held on 31 March 2018 resolved to increase the authorised share capital of the Bank from KD 164,633 thousand to KD 181,096 thousand.

Investment valuation reserve includes a loss of KD 5,445 thousand (31 December 2017: KD 5,420 thousand and 30 September 2017: KD 5,428 thousand) arising from foreign currency translation of the Bank's investment in a foreign associate.

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

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**

Period ended 30 September 2018 (Unaudited)

	Note	Nine months ended	
		30 September	
		2018	2017
		KD 000's	KD 000's
<b>OPERATING ACTIVITIES</b>			
Profit before taxation		15,835	15,001
Adjustments for:			
Impairment and other provisions	8	65,652	59,952
Income from investment securities		(4,276)	(6,991)
Foreign exchange loss (gain) on investment securities		4,761	(1,394)
Depreciation and amortisation		153	52
Profit before changes in operating assets and liabilities		82,125	66,620
Changes in operating assets and liabilities:			
Treasury and Central Bank bonds		143,345	(137,659)
Due from banks and other financial institutions		222,985	(135,265)
Loans and advances to customers		(30,251)	52,805
Other assets		16,416	738
Due to banks		36,767	(69,046)
Due to other financial institutions		(108,832)	215,644
Customer deposits		(132,318)	(3,116)
Other liabilities		(15,323)	10,635
Net cash from operating activities		214,914	1,356
<b>INVESTING ACTIVITIES</b>			
Proceeds from disposal of investment securities		94,675	42,588
Acquisition of investment securities		(129,120)	(70,674)
Dividend income from investment securities		4,239	4,050
Acquisition of premises and equipment		(185)	(84)
Net cash (used in) investing activities		(30,391)	(24,120)
<b>FINANCING ACTIVITIES</b>			
Other borrowed funds		19,887	7,170
Purchase of treasury shares		-	(838)
Dividends paid		(29,435)	(22,330)
Dividend paid to non controlling interest		(13)	-
Net cash (used in) financing activities		(9,561)	(15,998)
Net increase (decrease) in cash and short term funds		174,962	(38,762)
Cash and short term funds at 1 January		509,202	556,929
<b>Cash and short term funds at 30 September</b>	5	<b>684,164</b>	<b>518,167</b>

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



## **1 CORPORATE INFORMATION**

The Commercial Bank of Kuwait K.P.S.C ("the Bank") is a public shareholding company incorporated in the State of Kuwait and is registered as a Bank with the Central Bank of Kuwait ("CBK") and listed on the Boursa Kuwait. The address of the Bank's registered office is P.O. Box 2861, 13029 Safat, State of Kuwait.

The Bank and its subsidiary are together referred to as "the Group" in this interim condensed consolidated financial information.

The interim condensed consolidated financial information of the Group were authorised for issue in accordance with a resolution of the Board of Directors on 9 October 2018.

The principal activities of the Group are explained in note 12.

## **2 SIGNIFICANT ACCOUNTING POLICIES**

The interim condensed consolidated financial information has been prepared in accordance with International Accounting Standard (IAS) 34 "Interim Financial Reporting". The accounting policies used in the preparation of the interim condensed consolidated financial information are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2017, except for the adoption of IFRS 9: Financial Instruments effective from 1 January 2018, which replaces IAS 39 Financial Instruments: Recognition and Measurement. The Group has adopted IFRS 9: Financial Instruments issued in July 2014 with date of initial application of 1 January 2018 except the requirements for expected credit losses (ECL) on loans and advances which have been replaced by CBK's regulations for a minimum general provision for performing loans and advances and specific provision for non performing loans and advances.

The interim condensed consolidated financial information does not include all the information and notes required for complete consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS) as adopted for use by the Government of Kuwait for financial services institutions regulated by the CBK.

Other new standards or amendments to existing standards which are effective for annual accounting period starting from 1 January 2018 did not have any material impact on financial position or performance of the Group.

In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the period ended 30 September 2018 are not necessarily indicative of the results that may be expected for the year ending 31 December 2018. For further information, refer to the consolidated financial statements included in the Group's annual report for the year ended 31 December 2017.

## **3 IMPACT OF CHANGES IN ACCOUNTING POLICIES DUE TO ADOPTION OF IFRS 9**

Key changes to the Group's accounting policies resulting from adoption of IFRS 9 are as summarized below:

### **a) Classification of financial assets and financial liabilities**

Classification and measurement category of all financial assets, except equity instruments and derivatives, is based on a combination of the Group's business model for managing the assets and the assets' contractual cash flow characteristics.

#### **i) Business model assessment**

The Group determines its business model at the level that best reflects how it manages various groups of financial assets to achieve its business objective and generates contractual cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'Sell' business model and measured at FVPL. The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:





- 1) How the performance of the business model and the financial assets held within that business model are evaluated and reported to the Group's key management personnel;
- 2) The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the methodology adopted to manage those risks;
- 3) How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

The expected frequency, value and timing of sales are also important aspects of the Group's assessment.

#### **ii) SPPI Test**

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and cash flows arising from sale of assets, the Group assesses whether the financial instruments' cash flows represent solely payments of principal and interest on principal amount outstanding (the 'SPPI test').

"Principal" for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium or discount).

Interest within a basic lending arrangement are typically the consideration for the time value of money, credit risk, other basic lending risks and a profit margin. To make the SPPI assessment, the Group applies judgment and considers relevant contractual terms such as the currency in which the financial asset is denominated, and the period for which the interest rate is set. In case the contractual terms of the instrument introduces more than demines exposure to risk or volatility in contractual cash flows unrelated to basic lending arrangement, such instruments are considered to have not meet the SPPI test.

Based on assessment of business model and cashflow characteristics, the Group classifies financial assets into the following categories while replacing financial asset categories (Fair value through profit or loss (FVPL), available for sale (AFS) and held to maturity) under IAS 39.

- 1) Debt instruments at amortized cost
- 2) Debt instruments at fair value through other comprehensive income (FVOCI) with gains or losses recycled to profit or loss on derecognition
- 3) Equity instruments at fair value through other comprehensive income (FVOCI) with no recycling of gains or losses to profit or loss on derecognition
- 4) Financial assets at fair value through profit or loss (FVPL)

#### **iii) Debt instruments at amortized cost**

A financial asset is measured at amortized cost if it meets both of the following conditions:

- a) The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- b) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

Cash and short term funds, Treasury and Central Bank bonds, Due from banks and other financial institutions, Loans and advances to customers and financial institutions, and certain other assets are classified as debt instruments at amortised cost.

Debt instruments measured at amortised cost are subsequently measured at amortised cost using the effective yield method adjusted for impairment losses, if any.

**iv) Debt instruments at FVOCI**

The Group applies the new category under IFRS 9 of debt instruments measured at FVOCI when both of the following conditions are met

- a) The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and cash flows from sale of financial assets
- b) The contractual terms of the financial asset meet the SPPI test

These instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income and foreign exchange gains and losses are recognised in the interim condensed consolidated statement of income. The ECL calculation for Debt instruments at FVOCI is explained in Note 3(b). On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss. The Group classifies quoted and unquoted bonds under this category and are included in investment securities in the consolidated statement of financial position.

**v) Equity instruments at FVOCI**

Upon initial recognition, the Group may elect to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Gains and losses on these equity instruments are never recycled to statement of income. Dividends are recognised in statement of income when the right of the payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI and reclassified to interim condensed consolidated statement of income. Equity instruments at FVOCI are not subject to an impairment assessment. Upon disposal cumulative gains or losses may be transferred within the equity. The Group classifies equity instruments at FVOCI and are included in investment securities in the consolidated statement of financial position.

**vi) Financial Asset at FVPL**

The Group classifies financial assets as FVPL when they have been purchased or issued primarily for short-term profit making through trading activities or form part of a portfolio of financial instruments that are managed together, for which there is evidence of a recent pattern of short-term profit taking. Such assets are recorded and measured in the statement of financial position at fair value. In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Changes in fair values, interest income and dividends are recorded in statement of income according to the terms of the contract, or when the right to payment has been established. Investment in certain managed funds are classified in this category.

**vii) Financial liabilities**

The accounting for Group's financial liabilities remain same as it was under IAS 39.

**b) Impairment**

IFRS 9 introduces a new impairment model that requires the recognition of expected credit losses (ECL) on all financial assets at amortised cost or at fair value through other comprehensive income (other than equity instruments), certain loan commitments and financial guarantee contracts. The ECL model also considers forward looking information to recognise impairment allowances earlier in the lifecycle of the financial asset. The Group has applied the new impairment model only to debt instruments at amortized cost and FVOCI excluding loans and advances and loans to financial institutions for which the Group continues to apply impairment requirements under CBK regulations.



IFRS 9 introduces a three-stage approach to impairment as follows:

- i) Stage 1 - For exposures where credit risk has not increased significantly the Group recognizes 12 month ECL, that is the portion of lifetime ECL from default events that are expected within 12 months of the reporting date.
- ii) Stage 2 - For exposures where credit risk has increased significantly since initial recognition, the Group recognizes lifetime ECL.
- iii) Stage 3 - lifetime ECL are recognised for financial instruments which are credit impaired. Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows have occurred. As this uses the same criteria as under IAS 39, the Groups methodology for specific provision remains largely unchanged.

In contrast, the IAS 39 impairment allowance assessment was based on an incurred loss model, and measured on assets where there was objective evidence that loss had been incurred, using information as at the reporting date.

When determining whether the risk of default has increased significantly since initial recognition, the Group considers quantitative and qualitative information, back stop indicators, analysis based on the Group's historical experience and expert credit risk assessment, including forward-looking information.

ECL are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD). The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation. EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the financial instruments and potential changes to the current amounts allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. The LGD represents expected loss conditional on default, its expected value when realised and the time value of money.

#### **Incorporation of forward looking information**

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The Group has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio. Relevant macro-economic adjustments are applied to capture variations from economic scenarios. These reflect reasonable and supportable forecasts of future macro-economic conditions that are not captured within the base ECL calculations. Macro-economic factors taken into consideration include, but are not limited to, Global Gross Domestic Product (GDP), consumer price index and Oil price, and require an evaluation of both the current and forecast direction of the macro-economic cycle. Incorporating forward-looking information increases the degree of judgment required as to how changes in these macro-economic factors will affect ECLs. The methodologies and assumptions including any forecasts of future economic conditions are reviewed regularly.

#### **c) Hedge accounting**

The Group has adopted new hedge accounting model as per IFRS 9. This requires the Group to ensure that hedge accounting relationships are aligned with the risk management objective and strategy and to apply a more qualitative and forward looking approach to assessing hedge effectiveness.

#### **d) Presentation of comparative**

As permitted by IFRS 9, the Group is not restating comparatives on initial application. This transition note provides a reconciliation of the net carrying amount of financial assets as at 31 December 2017 to the remeasured net carrying amount as at 1 January 2018, together with a summary of the impact on the interim condensed consolidated financial information of the changes introduced by IFRS 9.



## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 September 2018 (Unaudited)

## e) Impact on opening retained earnings and investment valuation reserve

	KD 000's	
	Investment valuation reserve	Retained earnings
Closing balance as at 31 December 2017 under IAS 39	48,196	174,724
<b>Impact on recognition of ECL</b>		
ECL under IFRS 9 for debt instruments at FVOCI	223	(223)
ECL under IFRS 9 for debt instruments at amortised cost	-	(73)
Opening balance as at 01 January 2018 under IFRS 9	<b>48,419</b>	<b>174,428</b>

## f) Impact on classification and measurement of financial assets

The following table shows the original measurement category under IAS 39 and new measurement category under IFRS 9 for each class of Group's financial assets as at 1 January 2018.

Class of financial assets	Original Classification under IAS 39	New Classification under IFRS 9	Original	New carrying
			Carrying amounts Under IAS 39 KD 000's	amount under IFRS 9 KD 000's
Cash and short term funds	Loans and receivables	Amortised	509,202	509,157
Treasury and Central Bank bonds	Loans and receivables	Amortised	493,542	493,538
Due from banks and other financial institutions	Loans and receivables	Amortised	569,308	569,284
Loans and advances to customers	Loans and receivables	Amortised	2,236,527	2,236,527
Investment securities				
Debt securities	Available for sale	FVOCI	257,729	257,729
Equity securities	Available for sale	FVOCI	200,682	200,682
Others	Available for sale	FVPL	363	363
Other assets	Loans and receivables	Amortised	35,149	35,149
			<b>4,302,502</b>	<b>4,302,429</b>

## g) Impact on credit impairment allowance

The following table reconciles the closing impairment allowance for financial assets other than loans and advances in accordance with IAS 39 as at 31 December 2017 to the opening ECL allowance determined in accordance with IFRS 9 as at 1 January 2018.

	KD 000's		
	31 December 2017	Re-measurement	1 January 2018
Cash and short term funds	-	45	45
Treasury and Central Bank bonds	-	4	4
Due from banks and other financial institutions	-	24	24
Investment securities			
Debt securities	2,509	223	2,732
	2,509	296	2,805


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**4 SUBSIDIARY**

Name of entity	Country of incorporation	Principal activities	% of ownership		
			30 September 2018	31 December 2017	30 September 2017
Al-Tijari Financial Brokerage Company K.S.C. (Closed)	Kuwait	Brokerage Services	93.55	93.55	93.55

**5 CASH AND SHORT TERM FUNDS**

	<i>(Audited)</i>		
	30 September 2018 KD 000's	31 December 2017 KD 000's	30 September 2017 KD 000's
Cash and cash items	277,250	204,406	139,836
Balances with the CBK	4,832	3,844	10,383
Deposits with banks maturing within seven days	402,105	300,952	367,948
	<b>684,187</b>	509,202	518,167
Less : Provision for impairment	(23)	-	-
	<b>684,164</b>	509,202	518,167

**6 DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS**

	<i>(Audited)</i>		
	30 September 2018 KD 000's	31 December 2017 KD 000's	30 September 2017 KD 000's
Placements with banks	272,023	496,292	550,653
Loans and advances to banks	75,658	73,754	57,263
	<b>347,681</b>	570,046	607,916
Less : Provision for impairment	(791)	(738)	(573)
	<b>346,890</b>	569,308	607,343



## **7 INVESTMENT SECURITIES**

During 2008, the Bank acquired 221,425,095 shares of Boubyan Bank at a cost of KD 94,103 thousand under multiple purchase transactions, all of which were executed under the standard procedures adopted by Boursa Kuwait. However, at a subsequent date, and as a result of the availability of cash balances in the account of the parent company (“the Borrower”) related to the five subsidiaries which sold the mentioned shares in Boursa Kuwait (we refer to the five subsidiaries companies below as “Appellants”), the Bank utilized these balances to close the loan due from the Borrower. In 2009, the Borrower, along with the appellants, filed a legal case challenging the Bank’s ownership of the above mentioned shares where a final court judgment was issued in this dispute on 27 December 2017. A summary of major events is detailed hereunder:

In February 2009, the Court of Summary Appeal restricted the sale of 221,425,095 shares until a final court judgment is issued in the ownership dispute of these shares.

During 2010, the Bank participated in the rights issue and acquired 127,058,530 shares at a cost of KD 32,401 thousand and thereafter, during the years 2013 to the reporting date, the Bank received a total of 92,473,793 bonus shares.

In April 2016, the Court of First Instance issued a verdict in favor of the Bank confirming the validity of the Bank’s ownership of 221,425,095 shares.

In February 2017, the Court of Appeal issued a verdict, voiding the five sale contracts dated 30 November 2008 as concluded between the appellants and the Bank with regard to the sale of Boubyan Bank shares totaling 221,425,095 shares and revert the situation back to its pre-contract status, most importantly to revert back the shares, their yields, interests and any benefits the Bank has obtained, to the appellants along with voiding all acts the Bank has taken on the account of the Borrower following the sale date.

The Bank appealed against this verdict in the Court of Cassation. On 27 December 2017, the Court of Cassation issued a judgment partially accepting the appeal as the court obligated the appellants mentioned above to pay the price of shares to the Bank. The Court of Cassation also validated all the actions taken by the Bank on the account of the borrower following the date of the five sales contracts of the shares dated 30 November 2008. Furthermore, the Court of Cassation obligated the Borrower and the appellants to pay the required legal expenses on the litigation.

On 29 January 2018, the Bank has obtained the execution stamp for the execution of the judgment issued by the Court of Cassation against the appellants, whereby the Bank currently enjoys the power to collect the shares’ value and in return to transfer the shares’ ownership to the appellants. The Bank will continue to recognise these shares as part of Investment Securities until the judgment issued by the Court of Cassation is executed.

## **8 IMPAIRMENT AND OTHER PROVISIONS**

Impairment and other provisions recorded for the period ended 30 September 2018 amounted to KD 65,652 thousand (30 September 2017: KD 59,952 thousand) which mainly represent specific, general and other provisions against loans and advances and other financial assets which was partially offset by recoveries amounting to KD 12,770 thousand (30 September 2017: KD 11,555 thousand).

Impairment and other provisions includes ECL on financial assets for the period ended 30 September 2018 amounting to KD 13 thousand.


**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION**

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**9 EARNINGS PER SHARE**

Basic and diluted earnings per share is calculated by dividing the net profit for the period attributable to shareholders of the Bank by the weighted average number of shares outstanding during the period.

	Three months ended 30 September		Nine months ended 30 September	
	2018	2017	2018	2017
Net profit for the period attributable to shareholders of the Bank (KD 000's)	<b>9,191</b>	12,447	<b>15,232</b>	14,439
Weighted average of authorised and subscribed shares (numbers in 000's)	<b>1,810,960</b>	<b>1,810,960</b>	<b>1,810,960</b>	<b>1,810,960</b>
Less: Weighted average of treasury shares held (numbers in 000's)	<b>(12,173)</b>	(11,025)	<b>(12,173)</b>	(10,283)
	<b>1,798,787</b>	1,799,935	<b>1,798,787</b>	1,800,677
Basic and diluted earnings per share attributable to shareholders of the Bank (fils)	<b>5.1</b>	6.9	<b>8.5</b>	8.0

**10 RELATED PARTY TRANSACTIONS**

During the period, certain related parties (directors and officers of the Group, their families and companies of which they are principal owners) were customers of the Group in the ordinary course of business. The terms of these transactions are approved by the Group's management. The balances at the date of interim condensed consolidated financial position are as follows:

	30 September 2018			30 September 2017		
	Number of Directors/ Executives	Number of Related Members	Amount in KD 000's	Number of Directors/ Executives	Number of Related Members	Amount in KD 000's
<b>Board of Directors</b>						
Loans	2	-	455	2	-	67
Credit cards	2	-	4	4	-	2
Deposits	10	-	786	10	-	320
<b>Executive Management</b>						
Loans	10	-	321	10	-	181
Credit cards	8	1	18	7	2	14
Deposits	15	-	312	13	-	486

The loans issued to directors, key management personnel and related members are repayable within 5 to 10 years and have interest rates ranging from 0% to 6% (30 September 2017: 0% to 5%).


**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION**

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The detail of compensation for key management personnel included in the interim condensed consolidated statement of income are as follows:

	Nine months ended 30 September	
	2018 KD 000's	2017 KD 000's
Salaries and other short-term benefits	(904)	(930)
Post employment benefits	(3)	(6)
End of service benefits	(38)	(58)

**11 FAIR VALUES 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. Fair values of all financial instruments are not materially different from their carrying values. For financial assets and financial liabilities that are liquid or having a short-term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, saving accounts without a specific maturity and variable rate financial instruments.

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

Level 1: Quoted (unadjusted) prices in active markets for identical assets or 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: Techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

The method and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period.

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

	30 September 2018			
	KD 000's			
	Level 1	Level 2	Level 3	Total
<b>Financial Instruments</b>				
<b>Financial assets at FVPL:</b>				
Other securities	-	83	-	83
<b>Derivative Financial Instruments:</b>				
Forward Foreign Exchange Contracts	-	4,366	-	4,366
Interest Rate Swaps	-	2,306	-	2,306
	-	6,672	-	6,672
<b>Financial assets at FVOCI:</b>				
Equity securities	217,624	25,915	-	243,539
Debt securities	274,018	15,600	-	289,618
	491,642	41,515	-	533,157



**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION**

30 September 2018 (Unaudited)

		31 December 2017 (Audited)			
		KD 000's			
Financial Instruments		Level 1	Level 2	Level 3	Total
Financial assets at fair value through statement of income:					
Derivative Financial Instruments:					
Forward Foreign Exchange Contracts		-	(1,570)	-	(1,570)
Interest Rate Swaps		-	661	-	661
		-	(909)	-	(909)
Financial assets available for sale:					
Equity securities		170,583	30,099	-	200,682
Debt securities		229,497	18,588	-	248,085
Others securities		-	10,007	-	10,007
		400,080	58,694	-	458,774
		30 September 2017			
		KD 000's			
Financial Instruments		Level 1	Level 2	Level 3	Total
Financial assets at fair value through statement of income:					
Derivative Financial Instruments:					
Forward Foreign Exchange Contracts		-	(5,570)	-	(5,570)
Interest Rate Swaps		-	58	-	58
		-	(5,512)	-	(5,512)
Financial assets available for sale:					
Equity securities		177,084	33,013	-	210,097
Debt securities		207,057	28,608	-	235,665
Others securities		-	10,008	-	10,008
		384,141	71,629	-	455,770

There were no transfers between level 1, level 2 and level 3 hierarchy.

**12 SEGMENTAL ANALYSIS**

The Group operates in banking, brokerage services and investment activities which are segmented between:

- Corporate and Retail banking provides a full range of lending, deposit and related banking services to domestic and international corporate and individual customers.
- Treasury and Investment banking comprises of money market, foreign exchange, treasury bonds, asset management and brokerage services.



## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 September 2018 (Unaudited)

	KD 000's					
	Corporate and Retail Banking		Treasury and Investment Banking		Total	
	Nine months ended 30 September		Nine months ended 30 September		Nine months ended 30 September	
	2018	2017	2018	2017	2018	2017
Net interest income	61,271	61,582	8,845	7,577	70,116	69,159
Non interest income	32,610	32,256	11,430	9,462	44,040	41,718
Operating income	93,881	93,838	20,275	17,039	114,156	110,877
Impairment and other provisions	(65,510)	(3,935)	(142)	(56,017)	(65,652)	(59,952)
Net profit (loss) for the period	9,925	72,784	5,322	(58,306)	15,247	14,478
Assets	2,359,862	2,299,060	1,867,711	2,070,779	4,227,573	4,369,839
Liabilities & Equity	1,504,154	1,576,596	2,723,419	2,793,243	4,227,573	4,369,839

## 13 OFF BALANCE SHEET ITEMS

## (a) Financial instruments with contractual amounts

In the normal course of business the Group makes commitments to extend credit to customers. The contracted amounts represent the credit risk assuming that the amounts are fully advanced and that any collateral is of no value. The total contractual amount of the commitment does not necessarily represent the future cash requirement as in many cases these contracts terminate without being funded.

## (i) Financial instruments with contractual amounts representing credit risk

	30 September 2018	(Audited)	
		31 December 2017	30 September 2017
	KD 000's	KD 000's	KD 000's
Acceptances	24,519	27,963	28,959
Letters of credit	158,789	184,981	141,057
Letters of guarantee	1,333,104	1,331,003	1,339,245
	<b>1,516,412</b>	<b>1,543,947</b>	<b>1,509,261</b>


**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION**

30 September 2018 (Unaudited)

**(ii) Financial instruments with contractual or notional amounts that are subject to credit risk**

	KD 000's		
	Positive Fair Value	Negative Fair Value	Notional Amount
<b>30 September 2018</b>			
Foreign exchange contracts - forward	5,352	986	758,779
Interest Rate Swaps	2,379	73	156,763
	<b>7,731</b>	<b>1,059</b>	<b>915,542</b>
	KD 000's		
	Positive Fair Value	Negative Fair Value	Notional Amount
<b>31 December 2017 (Audited)</b>			
Foreign exchange contracts - forward	1,403	2,973	649,860
Interest Rate Swaps	797	136	146,096
	<b>2,200</b>	<b>3,109</b>	<b>795,956</b>
	KD 000's		
	Positive Fair Value	Negative Fair Value	Notional Amount
<b>30 September 2017</b>			
Foreign exchange contracts - forward	380	5,950	575,241
Interest Rate Swaps	424	366	132,808
	<b>804</b>	<b>6,316</b>	<b>708,049</b>

The amount subject to credit risk is insignificant and is limited to the current replacement value of instruments, which is only a fraction of the contractual or notional amounts used to express the volumes outstanding.

**(b) Legal claims**

At the reporting date certain legal claims existed against the Group for which KD 1,165 thousand (31 December 2017: KD 1,071 thousand and 30 September 2017: 1,071 thousand) have been provided.