



The Commercial Bank of Kuwait Group

Interim Condensed Consolidated Financial Information

**30 June 2021
(Unaudited)**



**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



RSM
RSM Albazie & Co.

Arraya Tower 2, Floors 41 & 42
Abdulaziz Hamad Alsaqar St, Sharq
P.O. Box 2115, Safat 13022, State of Kuwait

T +965 22961000
F +965 22412761
www.rsm.global/kuwait

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 June 2021 and the related interim condensed consolidated statements of income, comprehensive income for the three-month and six-month periods then ended and the related interim condensed consolidated statement of changes in equity, and cash flows for the six-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 six-month period ended 30 June 2021 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 six-month period ended 30 June 2021 that might have had a material effect on the business of the Bank or on its financial position.



Bader A. Al-Wazzan
License No. 62A
Deloitte & Touche
Al-Wazzan & Co.

Kuwait
15 August 2021



Dr Shuaib A. Shuaib
License No. 33A
RSM Albazie & Co.



The Commercial Bank of Kuwait Group

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2021 (Unaudited)

		<i>(Audited)</i>	
	Note	30 June 2021 KD 000's	31 December 2020 KD 000's
			30 June 2020 KD 000's
ASSETS			
Cash and short term funds	4	624,151	721,408
Treasury and Central Bank bonds		184,951	186,522
Due from banks and other financial institutions	5	450,238	581,622
Loans and advances	6	2,245,605	2,279,057
Investment securities	7	572,393	568,919
Premises and equipment		29,916	29,177
Intangible assets		3,506	3,506
Other assets		29,196	18,546
TOTAL ASSETS		4,139,956	4,388,757
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks		319,180	215,925
Due to other financial institutions		330,058	452,499
Customer deposits		2,044,663	2,368,873
Other borrowed funds		468,149	443,652
Other liabilities		212,645	214,984
TOTAL LIABILITIES		3,374,695	3,695,933
EQUITY			
Equity attributable to shareholders of the Bank			
Share capital		199,206	199,206
Proposed bonus shares		-	27,107
Treasury shares		(5,233)	(32,340)
Reserves		407,015	353,710
Retained earnings		163,329	144,208
		764,317	691,891
Non-controlling interests		944	933
TOTAL EQUITY		765,261	692,824
TOTAL LIABILITIES AND EQUITY		4,139,956	4,388,757

Sheikh Ahmad Duaij Al Sabah
Chairman

Elham Y. Mahfouz
Elham Y. Mahfouz
Chief Executive Officer

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

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME**

Period ended 30 June 2021 (Unaudited)

	Note	Three months ended 30 June		Six months ended 30 June	
		2021 KD 000's	2020 KD 000's	2021 KD 000's	2020 KD 000's
Interest income		25,230	30,874	50,736	68,961
Interest expense		(5,980)	(13,641)	(12,024)	(30,547)
NET INTEREST INCOME		19,250	17,233	38,712	38,414
Fees and commissions		9,508	7,404	18,671	17,091
Net gain from dealing in foreign currencies		1,649	1,060	3,057	2,482
Net gain (loss) from investment securities		215	-	736	(5)
Dividend income		2,164	2,515	2,453	3,277
Other operating income		230	104	438	252
OPERATING INCOME		33,016	28,316	64,067	61,511
Staff expenses		(6,099)	(5,044)	(11,977)	(11,646)
General and administrative expenses		(3,276)	(2,727)	(6,651)	(7,413)
Depreciation and amortisation		(553)	(140)	(669)	(198)
OPERATING EXPENSES		(9,928)	(7,911)	(19,297)	(19,257)
OPERATING PROFIT BEFORE PROVISIONS		23,088	20,405	44,770	42,254
Impairment and other provisions	8	(3,193)	(20,060)	(24,816)	(41,029)
PROFIT BEFORE TAXATION		19,895	345	19,954	1,225
Taxation		(789)	4	(789)	(12)
NET PROFIT FOR THE PERIOD		19,106	349	19,165	1,213
Attributable to:					
Shareholders of the Bank		19,081	343	19,121	1,196
Non-controlling interests		25	6	44	17
		19,106	349	19,165	1,213
Basic and diluted earnings per share attributable to shareholders of the Bank (fils)	9	9.7	0.2	9.8	0.6

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

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

Period ended 30 June 2021 (Unaudited)

	Three months ended 30 June		Six months ended 30 June	
	2021 KD 000's	2020 KD 000's	2021 KD 000's	2020 KD 000's
Net profit for the period	19,106	349	19,165	1,213
OTHER COMPREHENSIVE INCOME				
Items that will not be reclassified subsequently to consolidated statement of income				
Equity securities classified as fair value through other comprehensive income:				
Net changes in fair value	48,778	17,587	52,160	(31,595)
Items that are or may be reclassified subsequently to consolidated statement of income				
Debt securities classified as fair value through other comprehensive income:				
Net changes in fair value	524	10,299	1,515	(2,514)
Net (loss) on disposal transferred to income statement	(132)	(6)	(370)	(8)
	49,170	27,880	53,305	(34,117)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	68,276	28,229	72,470	(32,904)
Attributable to:				
Shareholders of the Bank	68,251	28,223	72,426	(32,921)
Non-controlling interests	25	6	44	17
	68,276	28,229	72,470	(32,904)

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



INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Period ended 30 June 2021 (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		Total
Share Premium				Statutory Reserve	General Reserve	Treasury Shares Reserve	Property Revaluation Reserve	Investment Valuation Reserve	Interests				Total		
Balance at 1 January 2020	199,206	-	(21,690)	66,791	115,977	17,927	-	24,883	144,641	370,219	184,093	-	731,828	889	732,717
Total comprehensive income for the period	-	-	-	-	-	-	-	-	(34,117)	(34,117)	1,196	-	(32,921)	17	(32,904)
Treasury shares purchased	-	-	(10,650)	-	-	-	-	-	-	-	-	-	(10,650)	-	(10,650)
Modification loss on deferral of loans and installments (note 14)	-	-	-	-	-	-	-	-	-	-	(12,778)	-	(12,778)	-	(12,778)
Balance at 30 June 2020	199,206	-	(32,340)	66,791	115,977	17,927	-	24,883	110,524	336,102	172,511	-	675,479	906	676,385
Balance at 1 January 2021	199,206	27,107	(32,340)	66,791	115,977	17,927	-	24,095	128,920	353,710	144,208	-	691,891	933	692,824
Total comprehensive income for the period	-	-	-	-	-	-	-	-	53,305	53,305	19,121	-	72,426	44	72,470
Dividend paid	-	(27,107)	27,107	-	-	-	-	-	-	-	-	-	-	(33)	(33)
Balance at 30 June 2021	199,206	-	(5,233)	66,791	115,977	17,927	-	24,095	182,225	407,015	163,329	-	764,317	944	765,261

Annual General Assembly of the shareholders held on 31 March 2021 approved to distribute 3% bonus shares from the treasury shares held by the Bank for the year 2020 (2019: nil).

Investment valuation reserve includes a loss of KD 5,407 thousand (31 December 2020: KD 5,450 thousand and 30 June 2020: KD 5,529 thousand) arising from foreign currency translation of the Bank's investment in a foreign associate.

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

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**

Period ended 30 June 2021 (Unaudited)

	Note	Six months ended	
		30 June	
		2021	2020
		KD 000's	KD 000's
OPERATING ACTIVITIES			
Profit before taxation		19,954	1,225
Adjustments for:			
Impairment and other provisions	8	24,816	41,029
Income from investment securities		(3,189)	(3,272)
Foreign exchange loss (gain) on investment securities		2,222	(4,455)
Depreciation and amortisation		669	198
Profit before changes in operating assets and liabilities		44,472	34,725
Changes in operating assets and liabilities:			
Treasury and Central Bank bonds		1,571	35,503
Due from banks and other financial institutions		131,343	387,855
Loans and advances		7,677	(75,945)
Other assets		(10,650)	18,875
Due to banks		103,255	(264,890)
Due to other financial institutions		(122,441)	(82,726)
Customer deposits		(324,210)	(120,999)
Other liabilities		(1,259)	(9,246)
Net cash (used in) operating activities		(170,242)	(76,848)
INVESTING ACTIVITIES			
Proceeds from disposal of investment securities		63,406	45,925
Acquisition of investment securities		(17,470)	(115,031)
Dividend income from investment securities		2,453	3,277
Proceeds from disposal of premises and equipment		461	-
Acquisition of premises and equipment		(318)	(575)
Net cash from (used in) investing activities		48,532	(66,404)
FINANCING ACTIVITIES			
Other borrowed funds		24,497	70,565
Purchase of treasury shares		-	(10,650)
Dividend paid to non controlling interest		(33)	-
Net cash from financing activities		24,464	59,915
Net decrease in cash and short term funds		(97,246)	(83,337)
Cash and short term funds at 1 January		721,440	856,913
Cash and short term funds at 30 June	4	624,194	773,576

The attached notes 1 to 14 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 13 July 2021.

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

2 SIGNIFICANT ACCOUNTING POLICIES

The interim condensed consolidated financial information of the Group have 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 2020.

The interim condensed consolidated financial information has been prepared in accordance with the regulations for financial services institutions as issued by the CBK in the State of Kuwait. These regulations, including the recently issued CBK circulars on regulatory measures in response to COVID-19 and related CBK communications, require banks and other financial institutions regulated by CBK to adopt the International Financial Reporting Standards (IFRS) with the following amendments:

- i) Expected credit loss (ECL) to be measured at the higher of ECL on credit facilities computed under IFRS 9 in accordance to the CBK guidelines or the provisions as required by CBK instructions along with its consequent impact on related disclosures.
- ii) In the comparative periods, recognition of modification losses on financial assets arising from payment holidays to customers in response to Covid-19 was recognised in retained earnings instead of profit or loss as required by IFRS 9.

The above framework is hereinafter referred to as "IFRS as adopted by CBK for use by the State of Kuwait".

The interim condensed consolidated financial information does not contain all information and disclosures required for the annual consolidated financial statement prepared in accordance with IFRS, and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2020. Further, results for interim periods are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2021.

New standards, interpretations and amendments adopted by the Group

Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR).

The amendments include the following practical expedients:

- i) A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to an interest rate, equivalent to a movement in a market rates.
- ii) Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued.


NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2021 (Unaudited)

These amendments had no impact on the interim condensed consolidated financial statements of the Group. The Group intends to use the practical expedients in future periods if they become applicable.

Other new standards or amendments to existing standards which are effective for annual accounting period starting from 1 January 2021 did not have any material impact on financial position or performance of the Group.

3 SUBSIDIARY

Name of entity	Country of incorporation	Principal activities	% of ownership		
			30 June 2021	31 December 2020	30 June 2020
Al-Tijari Financial Brokerage Company K.S.C. (Closed)	Kuwait	Brokerage Services	93.55	93.55	93.55

4 CASH AND SHORT TERM FUNDS

	<i>(Audited)</i>		
	30 June 2021	31 December 2020	30 June 2020
	KD 000's	KD 000's	KD 000's
Cash and cash items	228,021	166,614	228,535
Balances with the CBK	125,372	133,199	90,683
Deposits with banks maturing within seven days	270,801	421,627	454,358
	624,194	721,440	773,576
Less : Provision for impairment (ECL)	(43)	(32)	(44)
	624,151	721,408	773,532

5 DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	<i>(Audited)</i>		
	30 June 2021	31 December 2020	30 June 2020
	KD 000's	KD 000's	KD 000's
Placements with banks	338,532	469,278	362,001
Less: Provision for impairment (ECL)	(63)	(34)	(22)
	338,469	469,244	361,979
Loans and advances to banks	112,589	113,200	131,909
Less: Provision for impairment	(820)	(822)	(1,318)
	111,769	112,378	130,591
	450,238	581,622	492,570

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

30 June 2021 (Unaudited)

6 LOANS AND ADVANCES

Provision for expected credit losses (ECL) on credit facilities are the higher of ECL under IFRS 9, determined in accordance with the CBK guidelines and the provision required by the CBK rules on classification of credit facilities.

Total available provision on credit facilities (cash and non cash) determined in accordance with the CBK rules on classification of credit facilities as at 30 June 2021 is KD 202,131 thousand (31 December 2020: KD 178,272 thousand and 30 June 2020: KD 187,721 thousand).

The ECL on credit facilities determined under IFRS 9 amounted to KD 104,511 thousand as at 30 June 2021 (31 December 2020: KD 104,706 thousand and 30 June 2020: KD 126,709 thousand).

The provision required under CBK rules on classification of credit facilities is higher than ECL under CBK guidelines for IFRS 9.

An analysis of the gross amounts of credit facilities, and the corresponding ECL based on the staging criteria under IFRS 9 in accordance with CBK guidelines are as follows;

	30 June 2021			
	KD 000's			
	Stage 1	Stage 2	Stage 3	Total
Credit facilities	2,051,139	355,926	-	2,407,065
Non cash credit facilities	2,306,256	227,074	33,880	2,567,210
ECL provision for credit facilities	21,199	50,255	33,057	104,511
	31 December 2020			
	KD 000's			
	Stage 1	Stage 2	Stage 3	Total
Credit facilities	2,032,898	381,871	-	2,414,769
Non cash credit facilities	2,351,076	209,517	38,033	2,598,626
ECL provision for credit facilities	21,425	47,406	35,875	104,706
	30 June 2020			
	KD 000's			
	Stage 1	Stage 2	Stage 3	Total
Credit facilities	1,969,585	453,956	27,504	2,451,045
Non cash credit facilities	2,402,104	166,835	28,414	2,597,353
ECL provision for credit facilities	20,638	52,403	53,668	126,709



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.

On 16 June 2019, a judgment was issued in favor of the Bank, which stipulates, firstly, to immediately stop execution of the earlier judgment by court of appeal as well as the amended judgment issued by the court of cassation and directed the appellants to refund the amount due to the Bank as consideration for returning the shares. Secondly, an expert delegate will determine the amount due from each of the five subsidiaries out of the principal amount to be refunded to the Bank, determine share of each subsidiary in the nullified shares and yields from the shares, subject of the nullified agreements, along with their interests and benefits, determine the fees and expenses paid in shares sale transactions and determine who is obligated to pay.

On 29 June 2020, the Court of Appeal dismissed the judgment issued by Court of First Instance on 16 June 2019 to suspend the execution immediately. The bank appealed against this ruling before Court of Cassation, and no hearing session has yet been

On 7 February 2021, the Bank raised an objection on the report submitted by the expert department. During the session held on 4 April 2021 the court issued a ruling to refer the case back to the expert department to review the objection raised by the bank. Next session is scheduled on 27 September 2021.

- b) During the three months period ended 30 June 2021, the Group designated certain debt securities as hedge items, to hedge the fair value changes arising from changes in market interest rates. Interest rate swap (IRS) is used as hedging instruments in which the Group pays fixed and receives floating interest rate.

Based on the matching of critical terms between the hedge items and the hedged instruments it was concluded that the hedges were effective.

The carrying value of debt securities designated as hedged item as at 30 June 2021 was KD 213,403 thousand (31 December 2020: 251,140 thousand and 30 June 2020: KD 190,217 thousand). The change in fair value of these securities resulting from changes in market interest rate (hedged risk) during the period was KD 2,512 thousand (30 June 2020: KD 4,974 thousand). The changes in fair value related to hedged risk during the period was recognised in the consolidated statement of income.

8 IMPAIRMENT AND OTHER PROVISIONS

Impairment and other provisions recorded for the period ended 30 June 2021 amounted to KD 24,816 thousand (30 June 2020: KD 41,029 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 7,549 thousand (30 June 2020: KD 3,391 thousand).

Impairment and other provisions includes reversal of ECL on financial assets other than loans and advances for the period ended 30 June 2021 amounting to KD 68 thousand (30 June 2020: charge of KD 527 thousand).

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

30 June 2021 (Unaudited)

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 June		Six months ended 30 June	
	2021	2020	2021	2020
Net profit for the period attributable to shareholders of the Bank (KD 000's)	19,081	343	19,121	1,196
Weighted average of authorised and subscribed shares (numbers in 000's)	1,992,056	1,992,056	1,992,056	1,992,056
Less: Weighted average of treasury shares held (numbers in 000's)	(18,746)	(68,624)	(43,652)	(61,392)
	1,973,310	1,923,432	1,948,404	1,930,664
Basic and diluted earnings per share attributable to shareholders of the Bank (fils)	9.7	0.2	9.8	0.6

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 June 2021			30 June 2020		
	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
Board of Directors						
Loans	2	1	1,753	1	1	1,381
Credit cards	4	1	12	4	1	2
Deposits	11	9	760	10	15	1,493
Executive Management						
Loans	23	3	768	22	3	667
Credit cards	20	2	35	20	1	38
Deposits	29	35	573	28	28	749
Associates						
Deposits	1	-	13,058	1	-	13,747
Major Shareholders						
Deposits	1	-	60	1	-	243

Interest income and interest expense include KD 32 thousand (30 June 2020: KD 7 thousand) and KD 102 thousand (30 June 2020: KD 170 thousand) respectively on transactions with related parties.

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

	Six months ended 30 June	
	2021 KD 000's	2020 KD 000's
Salaries and other short-term benefits	795	626
Post employment benefits	13	9
End of service benefits	97	42

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

30 June 2021 (Unaudited)

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.

Financial assets and liabilities that are carried at amortised cost, are not materially different from their fair values as most of these financial assets and liabilities are of short term maturities or repriced immediately based on market movement in interest rates.

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 June 2021			
	KD 000's			
	Level 1	Level 2	Level 3	Total
Debt securities	261,022	24,437	-	285,459
Equities and other securities	265,012	21,922	-	286,934
	526,034	46,359	-	572,393
Derivative financial instruments (Note 13)	-	(1,086)	-	(1,086)
	31 December 2020 (Audited)			
	KD 000's			
	Level 1	Level 2	Level 3	Total
Debt securities	318,203	14,449	-	332,652
Equities and other securities	208,477	27,790	-	236,267
	526,680	42,239	-	568,919
Derivative financial instruments (Note 13)	-	3,376	-	3,376

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

30 June 2021 (Unaudited)

	30 June 2020			
	KD 000's			
	Level 1	Level 2	Level 3	Total
Debt securities	354,090	26,466	-	380,556
Equities and other securities	197,640	25,057	-	222,697
	551,730	51,523	-	603,253
Derivative financial instruments (Note 13)	-	(9,588)	-	(9,588)

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.

Management monitors the operating results of these segments separately for the purpose of making decisions based on key performance indicators.

	KD 000's					
	Corporate and Retail Banking		Treasury and Investment Banking		Total	
	Six months ended		Six months ended		Six months ended	
	30 June		30 June		30 June	
	2021	2020	2021	2020	2021	2020
Net interest income	32,589	33,356	6,123	5,058	38,712	38,414
Non interest income	18,255	17,181	7,100	5,916	25,355	23,097
Operating income	50,844	50,537	13,223	10,974	64,067	61,511
Impairment and other provisions	(24,035)	(40,551)	(781)	(478)	(24,816)	(41,029)
Net profit for the period	17,136	576	2,029	637	19,165	1,213
Assets	2,370,069	2,445,455	1,769,887	1,976,918	4,139,956	4,422,373
Liabilities & Equity	1,689,364	1,665,828	2,450,592	2,756,545	4,139,956	4,422,373

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.



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2021 (Unaudited)

(i) Financial instruments with contractual amounts representing credit risk

	30 June 2021	<i>(Audited)</i> 31 December 2020	30 June 2020
	KD 000's	KD 000's	KD 000's
Acceptances	26,613	29,028	42,801
Letters of credit	110,649	153,927	112,207
Letters of guarantee	1,487,475	1,446,985	1,426,011
Undrawn lines of credit	908,719	933,112	990,035
	2,533,456	2,563,052	2,571,054

(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
30 June 2021			
Forward foreign exchange contracts	1,109	461	419,134
Interest rate swaps (held as fair value hedges)	125	3,901	215,761
Interest rate swaps (others)	10,307	8,265	195,254
	11,541	12,627	830,149
31 December 2020 (Audited)			
Forward foreign exchange contracts	10,300	2,749	524,952
Interest rate swaps (held as fair value hedges)	-	6,311	240,561
Interest rate swaps (others)	5,819	3,683	190,610
	16,119	12,743	956,123
30 June 2020			
Forward foreign exchange contracts	524	2,230	445,844
Interest rate swaps (held as fair value hedges)	-	7,882	275,650
	524	10,112	721,494

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 2,612 thousand (31 December 2020: KD 1,842 thousand and 30 June 2020: 1,910 thousand) have been provided.

14 SIGNIFICANT EVENT

The rapid spread of COVID-19 pandemic causing disruption to business and economic activities has brought about uncertainties in the global economic environment. Starting from 15 March 2020 Kuwait government has implemented partial curfew and instructions have been issued to avoid the spread of the virus. The fiscal and monetary authorities, both domestic and international, have announced various support measures across the globe to counter possible adverse implications.

Further, the Group's operations are concentrated in economies that are relatively dependent on the price of crude oil. As at the end of the financial reporting period, oil prices have witnessed unprecedented volatility. The Group is closely monitoring the situation and has activated its business continuity planning and other risk management practices to manage the potential business disruption the COVID-19 outbreak may have on its operations and financial performance.

The Group has performed an assessment of COVID-19 in light of the available guidance of the CBK and IFRS which has resulted in the following changes to the expected credit loss methodology and valuation estimates and judgments as at and for the period ended 30 June 2021.

Expected Credit Loss (ECL) estimates

The inputs and assumptions used for the determination of ECL as at 30 June 2021 incorporates the revised economic forecasts with respect to oil prices and world GDP post Covid19. ECLs were estimated based on a range of forecast economic conditions as at that date by considering the impact of higher volatility in the forward-looking macro-economic factors, when determining the severity and likelihood of economic scenarios for ECL determination. This volatility has been reflected through adjustment in the methods of scenario construction and the underlying weightages assigned to these scenarios. In addition, the Group updated the relevant forward-looking information of the Group's international operations with respect to the weightings of the relevant macroeconomic scenarios relative to the economic climate of the respective market in which it operates.

Group has given specific consideration to the relevant impact of COVID-19 on the qualitative and quantitative factors when determining the significant increase in credit risk and assessing the indicators of impairment for the exposures in potentially affected sectors. This has resulted in maintaining the staging downgrades done during 2020 of certain exposures and recognition of relevant

Valuation estimates and judgments

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

Accounting for modified financial assets

Kuwait banks announced postponement of payment of consumer and installment loans to eligible citizen customers, upon their request, in accordance with the CBK circular No. 2/BS/IBS/ISHS/FS/476/2021 dated 18 April 2021 concerning the implementing provisions of Article No. 2 of Law no. (3) of 2021 ("the law") regarding the deferral of financial liabilities for a six-month period with cancellation of interest resulting from this deferral ("the 2021 scheme"). The installment deferrals are considered as short-term liquidity support to address borrower's potential cash flow issues, the cost of which is fully borne by the Government of Kuwait in accordance with the law.

The Group implemented the 2021 scheme by postponing the instalments for a six month period from the eligible customer request date with the corresponding extension of the liability tenure. The instalment deferral resulted in a loss to the Bank arising from the modification of contractual cash-flows, provisionally estimated at KD 11,032 thousand in accordance with IFRS 9. This loss was offset by an equivalent amount receivable from Government of Kuwait as Government Grant in accordance with the Law. The Group has recorded the Government Grant income by setting it off against the modification loss from the 2021 scheme. The Government grant receivable is included in other assets in the interim condensed consolidated statement of financial position.



Others factors

The Group is actively monitoring the impact on its financial conditions, liquidity, and workforce and will take necessary measures for business continuity in line with the instruction from the Government of Kuwait and CBK.