



The Commercial Bank of Kuwait Group

Interim Condensed Consolidated Financial Information

**30 June 2022
(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 June 2022 and the related interim condensed consolidated statements of income and comprehensive income for the three-month and six-month periods then ended and the related interim condensed consolidated statements 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 2022 that might have had a material effect on the business of the Bank or on its financial position.

We further report that, during the course of our review 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 2022 that might have had a material effect on the business of the Bank or on its financial position.



Ali B. Al Wazzan
License No. 246A
Deloitte & Touche
Al-Wazzan & Co.
Kuwait



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


**INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

30 June 2022 (Unaudited)

			<i>(Audited)</i>	
	Note	30 June 2022 KD 000's	31 December 2021 KD 000's	30 June 2021 KD 000's
ASSETS				
Cash and short term funds	4	1,032,417	727,513	624,151
Treasury and Central Bank bonds		166,450	177,452	184,951
Due from banks and other financial institutions	5	117,046	482,586	450,238
Loans and advances	6	2,311,379	2,278,078	2,245,605
Investment securities	7	588,922	551,303	572,393
Premises and equipment		29,490	28,922	29,916
Intangible assets		3,506	3,506	3,506
Other assets		74,935	40,206	29,196
TOTAL ASSETS		4,324,145	4,289,566	4,139,956
LIABILITIES AND EQUITY				
LIABILITIES				
Due to banks		243,727	360,526	319,180
Due to other financial institutions		331,361	245,676	330,058
Customer deposits		2,065,963	2,119,614	2,044,663
Other borrowed funds	8	606,585	519,459	468,149
Other liabilities		240,659	223,427	212,645
TOTAL LIABILITIES		3,488,295	3,468,702	3,374,695
EQUITY				
Equity attributable to shareholders of the Bank				
Share capital		199,206	199,206	199,206
Treasury shares		(5,233)	(5,233)	(5,233)
Reserves		438,006	427,372	407,015
Retained earnings		203,564	159,614	163,329
		835,543	780,959	764,317
Proposed dividend		-	39,618	-
		835,543	820,577	764,317
Non-controlling interests		307	287	944
TOTAL EQUITY		835,850	820,864	765,261
TOTAL LIABILITIES AND EQUITY		4,324,145	4,289,566	4,139,956



Abdulrahman Abdulla Al Ali
Deputy Chairman



Elham Yousry Mahfouz
Chief Executive Officer

The attached notes 1 to 15 form an integral part of this interim condensed consolidated financial information.

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME**

Period ended 30 June 2022 (Unaudited)

	Note	Three months ended 30 June		Six months ended 30 June	
		2022 KD 000's	2021 KD 000's	2022 KD 000's	2021 KD 000's
Interest income		28,369	25,230	52,193	50,736
Interest expense		(7,552)	(5,980)	(12,910)	(12,024)
NET INTEREST INCOME		20,817	19,250	39,283	38,712
Fees and commissions		10,457	9,508	20,185	18,671
Net gain from dealing in foreign currencies		1,976	1,649	3,798	3,057
Net gain from investment securities		10	215	54	736
Dividend income		1,817	2,164	1,817	2,453
Other operating income		99	230	120	438
OPERATING INCOME		35,176	33,016	65,257	64,067
Staff expenses		(7,888)	(6,099)	(14,276)	(11,977)
General and administrative expenses		(4,291)	(3,276)	(7,968)	(6,651)
Depreciation and amortisation		(145)	(553)	(229)	(669)
OPERATING EXPENSES		(12,324)	(9,928)	(22,473)	(19,297)
OPERATING PROFIT BEFORE PROVISIONS		22,852	23,088	42,784	44,770
Net (charge) reversal of impairment and other provisions	9	(181)	(3,193)	3,148	(24,816)
PROFIT BEFORE TAXATION		22,671	19,895	45,932	19,954
Taxation		(941)	(789)	(1,962)	(789)
NET PROFIT FOR THE PERIOD		21,730	19,106	43,970	19,165
Attributable to:					
Shareholders of the Bank		21,720	19,081	43,950	19,121
Non-controlling interests		10	25	20	44
		21,730	19,106	43,970	19,165
Basic and diluted earnings per share attributable to shareholders of the Bank (fils)	10	11.0	9.7	22.2	9.8

The attached notes 1 to 15 form an integral part of this interim condensed consolidated financial information.

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

Period ended 30 June 2022 (Unaudited)

	Three months ended 30 June		Six months ended 30 June	
	2022 KD 000's	2021 KD 000's	2022 KD 000's	2021 KD 000's
Net profit for the period	21,730	19,106	43,970	19,165
OTHER COMPREHENSIVE (LOSS) INCOME				
Items that will not be reclassified subsequently to interim condensed consolidated statement of income				
Equity securities classified as fair value through other comprehensive income:				
Net changes in fair value	(25,341)	48,778	15,321	52,160
Items that are or may be reclassified subsequently to interim condensed consolidated statement of income				
Debt securities classified as fair value through other comprehensive income:				
Net changes in fair value	(2,194)	524	(4,594)	1,515
Net loss on disposal transferred to income statement	(10)	(132)	(93)	(370)
	(27,545)	49,170	10,634	53,305
TOTAL COMPREHENSIVE (LOSS) INCOME FOR THE PERIOD	(5,815)	68,276	54,604	72,470
Attributable to:				
Shareholders of the Bank	(5,825)	68,251	54,584	72,426
Non-controlling interests	10	25	20	44
	(5,815)	68,276	54,604	72,470

The attached notes 1 to 15 form an integral part of this interim condensed consolidated financial information.



INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Period ended 30 June 2022 (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 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
Balance at 1 January 2022	199,206	-	(5,233)	66,791	115,977	17,927	-	24,043	202,634	427,372	159,614	39,618	820,577	287	820,864
Total comprehensive income for the period	-	-	-	-	-	-	-	-	10,634	10,634	43,950	-	54,584	20	54,604
Dividend paid	-	-	-	-	-	-	-	-	-	-	-	(39,618)	(39,618)	-	(39,618)
Balance at 30 June 2022	199,206	-	(5,233)	66,791	115,977	17,927	-	24,043	213,268	438,006	203,564	-	835,543	307	835,850

Annual General Assembly of the shareholders held on 13 April 2022 approved to distribute cash dividend of 20 fils per share amounting to KD 39,618 thousand (2020: nil) and nil bonus shares (2020: 3% bonus shares from the treasury shares held by the Bank).

Investment valuation reserve includes a loss of KD 5,509 thousand (31 December 2021: KD 5,434 thousand and 30 June 2021: KD 5,407 thousand) arising from foreign currency translation of the Bank's investment in a foreign associate.

The attached notes 1 to 15 form an integral part of this interim condensed consolidated financial information.

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**

Period ended 30 June 2022 (Unaudited)

	Note	Six months ended	
		30 June	
		2022	2021
		KD 000's	KD 000's
OPERATING ACTIVITIES			
Profit before taxation		45,932	19,954
Adjustments for:			
Net (reversal) charge of impairment and other provisions	9	(3,148)	24,816
Income from investment securities		(1,871)	(3,189)
Foreign exchange (gain) loss on investment securities		(5,259)	2,222
Depreciation and amortisation		229	669
Cash flow before changes in operating assets and liabilities		35,883	44,472
Changes in operating assets and liabilities:			
Treasury and Central Bank bonds		11,002	1,571
Due from banks and other financial institutions		365,576	131,343
Loans and advances		(33,086)	7,677
Other assets		(34,809)	(10,650)
Due to banks		(116,799)	103,255
Due to other financial institutions		85,685	(122,441)
Customer deposits		(53,651)	(324,210)
Other liabilities		22,834	(1,259)
Net cash from (used in) operating activities		282,635	(170,242)
INVESTING ACTIVITIES			
Proceeds from disposal of investment securities		98,057	63,406
Acquisition of investment securities		(125,239)	(17,470)
Dividend income from investment securities		1,817	2,453
Proceeds from disposal of premises and equipment		288	461
Acquisition of premises and equipment		(148)	(318)
Net cash (used in) from investing activities		(25,225)	48,532
FINANCING ACTIVITIES			
Other borrowed funds		87,126	24,497
Dividends paid		(39,618)	-
Dividend paid to non controlling interest		-	(33)
Net cash from financing activities		47,508	24,464
Net increase (decrease) in cash and short term funds		304,918	(97,246)
Cash and short term funds at 1 January		727,532	721,440
Cash and short term funds at 30 June	4	1,032,450	624,194

The attached notes 1 to 15 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 3 August 2022.

The principal activities of the Group are explained in note 13.

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 2021.

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) Modification losses on financial assets, arising from payment holidays to customers extended during the financial year ended 31 December 2020 as a result of Covid-19, to be recognised in retained earnings as required by the CBK circular no. 2/BS/IBS/461/2020 instead of profit or loss in accordance with IFRS 9. However, modification losses on financial assets, arising from any other payment holidays to customers including payment holidays extended during the period ended 30 June 2022 in response to Covid-19 shall be recognized in the statement of profit or loss.

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 2021. Further, results for interim periods are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2022.

New standards, interpretations and amendments adopted by the Group

The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

The key changes to the Group's accounting policies resulting from its adoption of new standards are summarised below:

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

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. There is no similar amendment proposed for IAS 39 Financial Instruments: Recognition and Measurement. These amendments had no material impact on the interim condensed consolidated financial information of the Group as there were no significant modifications of the Group's financial instruments during the period.


NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2022 (Unaudited)

Other new standards or amendments to existing standards which are effective for annual accounting period starting from 1 January 2022 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 2022	31 December 2021	30 June 2021
Al-Tijari Financial Brokerage Company K.S.C. (Closed)	Kuwait	Brokerage Services	98.16	98.16	93.55

4 CASH AND SHORT TERM FUNDS

	30 June 2022	(Audited) 31 December 2021	30 June 2021
	KD 000's	KD 000's	KD 000's
Cash and cash items	202,553	124,779	228,021
Balances with the CBK	169,899	147,199	125,372
Deposits with banks maturing within seven days	659,998	455,554	270,801
	1,032,450	727,532	624,194
Less : Provision for impairment (ECL)	(33)	(19)	(43)
	1,032,417	727,513	624,151

5 DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	30 June 2022	(Audited) 31 December 2021	30 June 2021
	KD 000's	KD 000's	KD 000's
Placements with banks	68,142	448,493	338,532
Less: Provision for impairment (ECL)	(12)	(65)	(63)
	68,130	448,428	338,469
Loans and advances to banks	49,407	34,197	112,589
Less: Provision for impairment	(491)	(39)	(820)
	48,916	34,158	111,769
	117,046	482,586	450,238

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

30 June 2022 (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 2022 is KD 218,457 thousand (31 December 2021: KD 216,125 thousand and 30 June 2021: KD 202,131 thousand).

The ECL on credit facilities (cash and non cash) determined under IFRS 9 amounted to KD 95,315 thousand as at 30 June 2022 (31 December 2021: KD 94,137 thousand and 30 June 2021: KD 104,511 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 2022			
	KD 000's			
	Stage 1	Stage 2	Stage 3	Total
Superior	394,896	1,132	-	396,028
Good	949,979	129,552	-	1,079,531
Standard	637,894	187,373	1	825,268
Past due but not impaired	93,907	104,019	-	197,926
Impaired	-	-	-	-
Cash credit facilities	2,076,676	422,076	1	2,498,753
Non cash credit facilities	2,460,480	237,631	24,055	2,722,166
ECL provision for credit facilities	23,337	48,773	23,205	95,315
	31 December 2021 (Audited)			
	KD 000's			
	Stage 1	Stage 2	Stage 3	Total
Superior	384,183	405	-	384,588
Good	913,791	103,489	-	1,017,280
Standard	715,177	276,300	-	991,477
Past due but not impaired	46,671	20,057	-	66,728
Impaired	-	-	-	-
Cash credit facilities	2,059,822	400,251	-	2,460,073
Non cash credit facilities	2,325,752	237,650	27,365	2,590,767
ECL provision for credit facilities	22,989	44,716	26,432	94,137

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

30 June 2022 (Unaudited)

	30 June 2021			
	KD 000's			
	Stage 1	Stage 2	Stage 3	Total
Superior	406,034	-	-	406,034
Good	706,581	33,917	-	740,498
Standard	704,166	64,707	-	768,873
Past due but not impaired	234,992	256,668	-	491,660
Impaired	-	-	-	-
Cash credit facilities	2,051,773	355,292	-	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

Movement in ECL for Credit Facilities:

	30 June 2022			
	KD 000's			
	Stage 1	Stage 2	Stage 3	Total
ECL 1 January 2022	22,989	44,716	26,432	94,137
Transfer to stage 1	225	(225)	-	-
Transfer to stage 2	(58)	58	-	-
Transfer to stage 3	-	-	-	-
Net charged	163	4,225	2,999	7,387
Written-off	-	-	(6,233)	(6,233)
Exchange difference	18	(1)	7	24
ECL 30 June 2022	23,337	48,773	23,205	95,315

	30 June 2021			
	KD 000's			
	Stage 1	Stage 2	Stage 3	Total
ECL 1 January 2021	21,425	47,406	35,875	104,706
Transfer to stage 1	416	(416)	-	-
Transfer to stage 2	(190)	190	-	-
Transfer to stage 3	-	(128)	128	-
Net (released) / charged	(429)	3,227	4,749	7,547
Written-off	-	-	(7,528)	(7,528)
Exchange difference	(23)	(24)	(167)	(214)
ECL 30 June 2021	21,199	50,255	33,057	104,511

7 INVESTMENT SECURITIES

- a) 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 Bursa 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 Bursa 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:


NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2022 (Unaudited)

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 150,072,925 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 totalling 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.

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 scheduled.

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. During the session held on 30 January 2022, the court issued a verdict prescribing the financial right and obligation of each party based on expert's report; however, the Bank and the opponent both appealed against this judgment. On 12 June 2022, the bank submitted a defense memorandum and related documents in response to questions/interrogations by the court, and the appeal court issued a brief judgment on 3 July 2022 to uphold the verdict issued by the court of first instance issued on 30 January 2022. The copy the final judgment is still awaited.

- b) 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 2022 was KD 148,896 thousand (31 December 2021: 180,468 thousand and 30 June 2021: KD 213,403 thousand). The change in fair value of these securities resulting from changes in market interest rate (hedged risk) during the period was KD 5,620 thousand (30 June 2021: KD 2,512 thousand). The changes in fair value related to hedged risk during the period was recognised in the interim condensed consolidated statement of income.

8 OTHER BORROWED FUNDS

Other borrowed funds include securities sold under agreements to repurchase amounting to KD 124,527 thousand (31 December 2021: KD 98,451 thousand and 30 June 2021: KD nil). The Group enters into collateralised borrowing transactions (repurchase agreements) in the ordinary course of its financing activities. Collateral is provided in the form of securities held within the investment securities portfolio. At 30 June 2022, the fair value of investment securities that had been pledged as collateral under repurchase agreements was KD 123,701 thousand (31 December 2021: KD 102,278 thousand and 30 June 2021: KD nil). The collateralised borrowing transactions are conducted under standardised terms that are usual and customary for such transactions.

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

30 June 2022 (Unaudited)

9 NET (CHARGE) REVERSAL OF IMPAIRMENT AND OTHER PROVISIONS

Net reversal of impairment and other provisions for the period ended 30 June 2022 amounted to KD 3,148 thousand (30 June 2021: charge of KD 24,816 thousand) which mainly represent specific, general and other provisions against loans and advances and other financial assets after partial offsetting recoveries amounting to KD 12,257 thousand (30 June 2021: KD 7,549 thousand).

Impairment and other provisions includes charge of ECL on financial assets other than loans and advances for the period ended 30 June 2022 amounting to KD 4 thousand (30 June 2021: reversal of KD 68 thousand).

10 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		Six months ended	
	30 June		30 June	
	2022	2021	2022	2021
Net profit for the period attributable to shareholders of the Bank (KD 000's)	21,720	19,081	43,950	19,121
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)	(11,139)	(18,746)	(11,139)	(43,652)
	1,980,917	1,973,310	1,980,917	1,948,404
Basic and diluted earnings per share attributable to shareholders of the Bank (fils)	11.0	9.7	22.2	9.8

11 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 2022			30 June 2021		
	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	1,868	2	1	1,753
Credit cards	3	1	3	4	1	12
Deposits	11	10	600	11	9	760
Executive Management						
Loans	27	1	1,145	23	3	768
Credit cards	25	1	38	20	2	35
Deposits	40	40	1,242	29	35	573
Associates						
Deposits	1	-	13,720	1	-	13,058
Major Shareholders						
Deposits	1	-	22	1	-	60

Interest income and interest expense include KD 28 thousand (30 June 2021: KD 32 thousand) and KD 43 thousand (30 June 2021: KD 102 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:



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2022 (Unaudited)

	Six months ended 30 June	
	2022 KD 000's	2021 KD 000's
Salaries and other short-term benefits	1,094	795
Post employment benefits	13	13
End of service benefits	105	97

12 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 2022			
	KD 000's			
	Level 1	Level 2	Level 3	Total
Debt securities	269,867	10,372	-	280,239
Equities and other securities	289,399	19,284	-	308,683
	559,266	29,656	-	588,922
Derivative financial instruments (Note 14)	-	12,639	-	12,639
	31 December 2021 (Audited)			
	KD 000's			
	Level 1	Level 2	Level 3	Total
Debt securities	233,898	10,309	-	244,207
Equities and other securities	282,799	24,297	-	307,096
	516,697	34,606	-	551,303
Derivative financial instruments (Note 14)	-	1,395	-	1,395

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

30 June 2022 (Unaudited)

	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 14)	-	(1,086)	-	(1,086)

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

13 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 30 June		Six months ended 30 June		Six months ended 30 June	
	2022	2021	2022	2021	2022	2021
Net interest income	35,036	32,589	4,247	6,123	39,283	38,712
Net non interest income	19,747	18,255	6,227	7,100	25,974	25,355
Operating income	54,783	50,844	10,474	13,223	65,257	64,067
Impairment and other provisions	3,250	(24,035)	(102)	(781)	3,148	(24,816)
Net profit (loss) for the period	46,448	17,136	(2,478)	2,029	43,970	19,165
Assets	2,347,710	2,370,069	1,976,435	1,769,887	4,324,145	4,139,956
Liabilities	1,735,001	1,689,364	1,753,294	1,685,331	3,488,295	3,374,695

14 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 2022 (Unaudited)

(i) Financial instruments with contractual amounts representing credit risk

	30 June 2022	<i>(Audited)</i> 31 December 2021	30 June 2021
	KD 000's	KD 000's	KD 000's
Acceptances	36,765	12,282	26,613
Letters of credit	153,375	98,917	110,649
Letters of guarantee	1,501,520	1,530,409	1,487,475
Undrawn lines of credit	1,006,695	922,035	908,719
	2,698,355	2,563,643	2,533,456

(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 2022			
Forward foreign exchange contracts	6,638	257	352,241
Interest rate swaps (held as fair value hedges)	4,332	20	139,337
Interest rate swaps (others)	26,090	24,144	238,818
	37,060	24,421	730,396
31 December 2021 (Audited)			
Forward foreign exchange contracts	2,328	1,786	554,554
Interest rate swaps (held as fair value hedges)	677	2,003	179,380
Interest rate swaps (others)	10,031	7,852	235,553
	13,036	11,641	969,487
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

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 2,675 thousand (31 December 2021: KD 2,605 thousand and 30 June 2021: 2,612 thousand) have been provided.

15 SIGNIFICANT EVENT

The Group is gradually recovering from the effects of Covid-19 pandemic. The Group's operating environment is moderately rebound and signs of economic recovery is visible across the region and globally. High vaccination rates and strict social distancing measures significantly reduced the impact of latest variants of virus.

During the years 2020 and 2021, Central Bank of Kuwait (CBK) implemented various measures targeted at reinforcing the banking sector's ability to play a vital role in the economy. Those measures are disclosed in the Group's annual consolidated financial statements for the year ended 31 December 2021 and 31 December 2020.

Expected Credit Loss (ECL) estimates

The inputs and assumptions used for the determination of ECL as at 30 June 2022 incorporates the revised economic forecasts with respect to oil prices and world GDP post Covid-19. 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.

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/ISIIS/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 installments for a six month period from the eligible customer request date with the corresponding extension of the liability tenure. The installment deferral resulted in a loss to the Bank arising from the modification of contractual cash-flows amounted to KD 10,879 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.