



The Commercial Bank of Kuwait Group

Consolidated Financial Statement

**30 June 2020
(Unaudited)**

Deloitte.

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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 2020 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 2020 that might have had a material effect on the business of the Bank or on its financial position.

We further report that, during the course of our review 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 2020, that might have had a material effect on the business of the Bank or on its financial position.



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Kuwait
14 July 2020

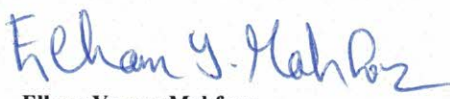


INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2020 (Unaudited)

	Note	30 June 2020 KD 000's	(Audited) 31 December 2019 KD 000's	30 June 2019 KD 000's
ASSETS				
Cash and short term funds	4	773,532	856,901	803,518
Treasury and Central Bank bonds		213,303	248,806	291,968
Due from banks and other financial institutions	5	492,570	880,415	462,486
Loans and advances		2,296,403	2,266,662	2,454,957
Investment securities	6	603,253	559,960	559,917
Premises and equipment		30,212	29,375	30,449
Intangible assets		3,506	3,506	3,506
Other assets		9,594	27,603	67,136
TOTAL ASSETS		4,422,373	4,873,228	4,673,937
LIABILITIES AND EQUITY				
LIABILITIES				
Due to banks		320,492	585,382	602,930
Due to other financial institutions		626,381	709,107	762,163
Customer deposits		2,331,931	2,452,930	2,392,815
Other borrowed funds		260,509	189,944	-
Other liabilities		206,675	203,148	185,167
TOTAL LIABILITIES		3,745,988	4,140,511	3,943,075
EQUITY				
Equity attributable to shareholders of the Bank				
Share capital		199,206	199,206	199,206
Treasury shares		(32,340)	(21,690)	(5,832)
Reserves		336,102	370,219	342,721
Retained earnings		172,511	184,093	193,902
Non-controlling interests		906	889	865
TOTAL EQUITY		676,385	732,717	730,862
TOTAL LIABILITIES AND EQUITY		4,422,373	4,873,228	4,673,937


 Sheikh Ahmad Duaij 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 June 2020 (Unaudited)

	Note	Three months ended 30 June		Six months ended 30 June	
		2020 KD 000's	2019 KD 000's	2020 KD 000's	2019 KD 000's
Interest income		30,874	41,272	68,961	81,770
Interest expense		(13,641)	(16,335)	(30,547)	(32,720)
NET INTEREST INCOME		17,233	24,937	38,414	49,050
Fees and commissions		7,404	10,632	17,091	20,770
Net gain from dealing in foreign currencies		1,060	2,852	2,482	4,606
Net gain (loss) from investment securities		-	113	(5)	101
Dividend income		2,515	3,733	3,277	3,733
Other operating income		104	4,754	252	5,695
OPERATING INCOME		28,316	47,021	61,511	83,955
Staff expenses		(5,044)	(7,236)	(11,646)	(15,042)
General and administrative expenses		(2,727)	(4,541)	(7,413)	(8,883)
Depreciation and amortisation		(140)	(952)	(198)	(1,703)
OPERATING EXPENSES		(7,911)	(12,729)	(19,257)	(25,628)
OPERATING PROFIT BEFORE PROVISIONS		20,405	34,292	42,254	58,327
Impairment and other provisions	7	(20,060)	(25,134)	(41,029)	(48,160)
PROFIT BEFORE TAXATION		345	9,158	1,225	10,167
Taxation		4	(283)	(12)	(326)
NET PROFIT FOR THE PERIOD		349	8,875	1,213	9,841
Attributable to:					
Shareholders of the Bank		343	8,857	1,196	9,809
Non-controlling interests		6	18	17	32
		349	8,875	1,213	9,841
Basic and diluted earnings per share attributable to shareholders of the Bank (fils)	8	0.2	4.5	0.6	5.0

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 June 2020 (Unaudited)

	Three months ended 30 June		Six months ended 30 June	
	2020 KD 000's	2019 KD 000's	2020 KD 000's	2019 KD 000's
Net profit for the period	349	8,875	1,213	9,841
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	17,587	8,500	(31,595)	26,933
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	10,299	205	(2,514)	1,515
Net (loss) on disposal transferred to income statement	(6)	(106)	(8)	(54)
	27,880	8,599	(34,117)	28,394
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	28,229	17,474	(32,904)	38,235
Attributable to:				
Shareholders of the Bank	28,223	17,456	(32,921)	38,203
Non-controlling interests	6	18	17	32
	28,229	17,474	(32,904)	38,235

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 June 2020 (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		
Share Premium				Statutory Reserve	General Reserve	Treasury Shares Reserve	Property Revaluation Reserve	Investment Valuation Reserve	Total				Interests	Total	
Balance at 1 January 2019	181,096	18,110	(4,578)	66,791	115,977	17,927	-	24,108	89,524	314,327	184,093	35,976	729,024	833	729,857
Total comprehensive income for the period	-	-	-	-	-	-	-	-	28,394	28,394	9,809	-	38,203	32	38,235
Treasury shares purchased	-	-	(1,254)	-	-	-	-	-	-	-	-	-	(1,254)	-	(1,254)
Bonus shares issued	18,110	(18,110)	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividend paid	-	-	-	-	-	-	-	-	-	-	-	(35,976)	(35,976)	-	(35,976)
Balance at 30 June 2019	199,206	-	(5,832)	66,791	115,977	17,927	-	24,108	117,918	342,721	193,902	-	729,997	865	730,862
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)
Purchase of treasury shares	-	-	(10,650)	-	-	-	-	-	-	-	-	-	(10,650)	-	(10,650)
Modification loss on deferral of loans and installments (note 13)	-	-	-	-	-	-	-	-	-	-	(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

Annual General Assembly of the shareholders held on 8 April 2020 approved not to distribute dividend for the year 2019 (2018: cash dividend of 20 fils per share amounting to KD 35,976 thousand, and 10 bonus shares for every 100 shares held).

Investment valuation reserve includes a loss of KD 5,529 thousand (31 December 2019: KD 5,432 thousand and 30 June 2019: KD 5,446 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 June 2020 (Unaudited)

	Note	Six months ended	
		30 June	
		2020 KD 000's	2019 KD 000's
OPERATING ACTIVITIES			
Profit before taxation		1,225	10,167
Adjustments for:			
Impairment and other provisions	7	41,029	48,160
Income from investment securities		(3,272)	(3,834)
Foreign exchange (gain) loss on investment securities		(4,455)	1,619
Depreciation and amortisation		198	1,703
Profit before changes in operating assets and liabilities		<u>34,725</u>	<u>57,815</u>
Changes in operating assets and liabilities:			
Treasury and Central Bank bonds		35,503	39,779
Due from banks and other financial institutions		387,855	(92,114)
Loans and advances		(75,945)	(245,573)
Other assets		18,875	3,628
Due to banks		(264,890)	255,830
Due to other financial institutions		(82,726)	(118,718)
Customer deposits		(120,999)	100,925
Other liabilities		(9,246)	14,355
Net cash (used in) from operating activities		<u>(76,848)</u>	<u>15,927</u>
INVESTING ACTIVITIES			
Proceeds from disposal of investment securities		45,925	86,131
Acquisition of investment securities		(115,031)	(65,765)
Dividend income from investment securities		3,277	3,733
Acquisition of premises and equipment		(575)	(417)
Net cash (used in) from investing activities		<u>(66,404)</u>	<u>23,682</u>
FINANCING ACTIVITIES			
Other borrowed funds		70,565	(57,675)
Purchase of treasury shares		(10,650)	(1,254)
Dividends paid		-	(35,976)
Net cash from (used in) financing activities		<u>59,915</u>	<u>(94,905)</u>
Net decrease in cash and short term funds		(83,337)	(55,296)
Cash and short term funds at 1 January		856,913	858,842
Cash and short term funds at 30 June	4	<u><u>773,576</u></u>	<u><u>803,546</u></u>

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


NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2020 (Unaudited)

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 14 July 2020.

The principal activities of the Group are explained in note 11.

2 SIGNIFICANT ACCOUNTING POLICIES

The interim condensed consolidated financial information of the Group has been prepared in accordance with International Accounting Standard (IAS) 34, 'Interim Financial Reporting' except as noted below. The accounting policies used in the preparation of these interim condensed consolidated financial information are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2019.

The annual consolidated financial statements for the year ended 31 December 2019 were prepared in accordance with regulations for financial services institutions as issued by the CBK in the State of Kuwait. These regulations require expected credit loss (ECL) to be measured at higher of the ECL on credit facilities computed under IFRS 9 according to the CBK guidelines or the provisions as required by CBK instructions. Further, during the period ended 31 March 2020, the CBK has extended their regulations to require that modification gains or losses of financial assets arising from payment holidays provided to customers in response to the economic impact of COVID-19 are to be recognised in retained earnings instead of profit or loss. The consequent impact on related disclosures and the adoption of all other requirements of International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standard Board ("IASB") (collectively referred to as "IFRS as modified by the CBK").

Other new standards or amendments to existing standards which are effective for annual accounting period starting from 1 January 2020 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 2020	31 December 2019	30 June 2019
Al-Tijari Financial Brokerage Company K.S.C. (Closed)	Kuwait	Brokerage Services	93.55	93.55	93.55


NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2020 (Unaudited)

4 CASH AND SHORT TERM FUNDS

	30 June 2020 KD 000's	<i>(Audited)</i> 31 December 2019 KD 000's	30 June 2019 KD 000's
Cash and cash items	228,535	113,004	237,973
Balances with the CBK	90,683	133,137	120,509
Deposits with banks maturing within seven days	454,358	610,772	445,064
	773,576	856,913	803,546
Less : Provision for impairment (ECL)	(44)	(12)	(28)
	773,532	856,901	803,518

5 DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	30 June 2020 KD 000's	<i>(Audited)</i> 31 December 2019 KD 000's	30 June 2019 KD 000's
Placements with banks	362,001	704,453	352,969
Less: Provision for impairment (ECL)	(22)	(66)	(30)
	361,979	704,387	352,939
Loans and advances to banks	131,909	147,806	110,653
Amounts due from other financial institutions	-	30,000	-
Less: Provision for impairment	(1,318)	(1,778)	(1,106)
	130,591	176,028	109,547
	492,570	880,415	462,486

6 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 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.


NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2020 (Unaudited)

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 119,869,340 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 17 November 2019, the court of appeal scheduled the next hearing on 16 February 2020 for merging the case contents and scheduled another hearing on 02 February 2020 for receiving the Expert's report. However, due to lockdown resulted from the Covid-19 Pandemic, both hearings will be rescheduled after the resumption of the courts.

- b) During the six months period ended 30 June 2020, 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

The carrying value of debt securities designated as hedged item as at 30 June 2020 was KD 190,217 thousand (30 June 2019: KD 195,410 thousand). The change in fair value of these securities resulting from changes in market interest rate (hedged risk) during the year was KD 4,974 thousand (30 June 2019: KD 3,693 thousand). The changes in fair value related to hedged risk during the period was recognised in the consolidated statement of income.

7 IMPAIRMENT AND OTHER PROVISIONS

Impairment and other provisions recorded for the period ended 30 June 2020 amounted to KD 41,029 thousand (30 June 2019: KD 48,160 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 3,391 thousand (30 June 2019: KD 4,393 thousand).

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.

The expected credit loss (ECL) on credit facilities determined under IFRS 9 amounted to KD 127,193 thousand as at 30 June 2020 (30 June 2019: KD 31,676 thousand). In downside scenario also, ECL on credit facilities will be below the provision held as per CBK

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

30 June 2020 (Unaudited)

Impairment and other provisions includes ECL on financial assets other than loans and advances for the period ended 30 June 2020 amounting to KD 527 thousand (30 June 2019: reversal of KD 154 thousand).

8 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	
	2020	2019	2020	2019
Net profit for the period attributable to shareholders of the Bank (KD 000's)	343	8,857	1,196	9,809
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)	(68,624)	(14,354)	(61,392)	(13,874)
	1,923,432	1,977,702	1,930,664	1,978,182
Basic and diluted earnings per share attributable to shareholders of the Bank (fils)	0.2	4.5	0.6	5.0

9 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 2020			30 June 2019		
	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	1	1	1,381	2	-	450
Credit cards	4	1	2	3	1	5
Deposits	10	15	1,493	9	12	1,765
Executive Management						
Loans	22	3	667	21	2	665
Credit cards	20	1	38	21	1	31
Deposits	28	28	749	32	23	629
Associates						
Deposits	1	-	13,747	1	-	13,626
Major Shareholders						
Deposits	1	-	243	1	-	4,322

Interest income and interest expense include KD 7 thousand (30 June 2019: KD 26 thousand) and KD 548 thousand (30 June 2019: KD 323 thousand) respectively on transactions with related parties.


NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2020 (Unaudited)

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	
	2020 KD 000's	2019 KD 000's
Salaries and other short-term benefits	626	796
Post employment benefits	9	16
End of service benefits	42	141

10 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 2020			
	KD 000's			
	Level 1	Level 2	Level 3	Total
Financial Instruments				
Financial assets at FVPL:				
Other securities	-	3	-	3
Derivative Financial instruments at FVTPL:				
Derivative financial instruments	-	(9,588)	-	(9,588)
Financial assets at FVOCI:				
Equity securities	197,640	25,054	-	222,694
Debt securities	354,090	26,466	-	380,556
	551,730	51,520	-	603,250

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

30 June 2020 (Unaudited)

	31 December 2019 (Audited)			
	KD 000's			
	Level 1	Level 2	Level 3	Total
Financial Instruments				
Financial assets at FVPL:				
Other securities	-	8	-	8
Derivative Financial instruments at FVTPL:				
Derivative financial instruments	-	(3,866)	-	(3,866)
Financial assets at FVOCI:				
Equity securities	246,631	25,138	-	271,769
Debt securities	272,231	15,952	-	288,183
	518,862	41,090	-	559,952
	30 June 2019			
	KD 000's			
	Level 1	Level 2	Level 3	Total
Financial Instruments				
Financial assets at FVPL:				
Other securities	-	10	-	10
Derivative Financial instruments at FVTPL:				
Derivative financial instruments	-	(2,225)	-	(2,225)
Financial assets at FVOCI:				
Equity securities	237,965	25,057	-	263,022
Debt securities	280,857	16,028	-	296,885
	518,822	41,085	-	559,907

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

11 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.


NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2020 (Unaudited)

	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	
	2020	2019	2020	2019	2020	2019
Net interest income	33,356	41,343	5,058	7,707	38,414	49,050
Non interest income	17,181	22,296	5,916	12,609	23,097	34,905
Operating income	50,537	63,639	10,974	20,316	61,511	83,955
Impairment and other provisions	(40,551)	(48,107)	(478)	(53)	(41,029)	(48,160)
Net profit for the period	576	1,699	637	8,142	1,213	9,841
Assets	2,445,455	2,642,468	1,976,918	2,031,469	4,422,373	4,673,937
Liabilities & Equity	1,665,828	1,593,821	2,756,545	3,080,116	4,422,373	4,673,937

12 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 June 2020	(Audited) 31 December 2019	30 June 2019
	KD 000's	KD 000's	KD 000's
Acceptances	42,801	50,003	34,403
Letters of credit	112,207	138,382	180,671
Letters of guarantee	1,426,011	1,417,651	1,341,829
Undrawn lines of credit	990,035	961,426	869,866
	2,571,054	2,567,462	2,426,769


NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2020 (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
30 June 2020			
Foreign exchange contracts - forward	524	2,230	445,844
Interest Rate Swaps	-	7,882	275,650
	524	10,112	721,494
	KD 000's		
	Positive Fair Value	Negative Fair Value	Notional Amount
31 December 2019 (Audited)			
Foreign exchange contracts - forward	738	1,627	328,216
Interest Rate Swaps	176	3,153	189,493
	914	4,780	517,709
	KD 000's		
	Positive Fair Value	Negative Fair Value	Notional Amount
30 June 2019			
Foreign exchange contracts - forward	2,433	1,596	584,997
Interest Rate Swaps	230	3,292	185,300
	2,663	4,888	770,297

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 1,910 thousand (31 December 2019: KD 1,660 thousand and 30 June 2019: 1,652 thousand) have been provided.

**13 SUBSEQUENT 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 2020.

Expected Credit Loss (ECL) estimates

The uncertainties caused by COVID-19, and the volatility in oil prices and world GDP have required the Group to update the inputs and assumptions used for the determination of ECLs as at 30 June 2020. 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 staging downgrade of certain exposures and recognition of relevant ECLs and impairment allowances.

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

Considering the economic circumstances post the Covid-19 outbreak, the CBK has implemented various measures with a view to enhance the ability of banks to play a vital role in the economy, expanding their lending space, strengthening their financing capabilities, encouraging them to lend to productive economic sectors and providing liquidity to the impacted customers. In addition, subsequent to the statement of financial position date, Kuwait Banking Association have decided to postpone the collection of instalments on consumer and instalment loans and credit cards for a period of six months starting from April 2020 without charging any additional interest arising from this postponement. The impact of loan deferral scheme amounted to KD 12,778 thousands was recognised by charging retained earnings as required by the CBK circular dated 5 July 2020.

Similarly CBK has encouraged banks in Kuwait to restructure the facilities by delaying repayments for affected corporate customers. Accordingly the Group has delayed repayments of certain customers and the modification loss on those financing assets amounted to KD 326 thousand was recognised in the interim condensed consolidated statement of income.

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.