

NATIONAL BANK OF KUWAIT GROUP

**INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION**

30 SEPTEMBER 2020 (UNAUDITED)



Building a better
working world

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REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION TO THE BOARD OF DIRECTORS OF NATIONAL BANK OF KUWAIT S.A.K.P.

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of National Bank of Kuwait S.A.K.P. (the "Bank") and its subsidiaries (collectively the "Group") as at 30 September 2020, and the related interim condensed consolidated statement of income and the interim condensed consolidated statement of comprehensive income for the three month and nine month periods then ended, and the interim condensed consolidated statement of changes in equity and the interim condensed consolidated statement of cash flows for the nine months period then ended. The management of the Bank is responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with the basis of presentation set out in Note 2. Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial information is not prepared, in all material respects, in accordance with the basis of presentation set out in Note 2.

Report on Other Legal and Regulatory Requirements

Furthermore, based on our review, the interim condensed consolidated financial information is in agreement with the books of 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, as amended, and its executive regulation, as amended, or of the Bank's Articles of Association and Memorandum of Incorporation, as amended, during the nine months period ended 30 September 2020 that might have had a material effect on the business of the Bank or on its financial position.

We further report that, during the course of our review, to the best of our knowledge and belief, we have not become aware of any violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organization of banking business, and its related regulations, or of the provisions of Law No 7 of 2010 concerning the Capital Markets Authority and its related regulations during the nine months period ended 30 September 2020 that might have had a material effect on the business of the Bank or on its financial position.

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ERNST & YOUNG
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DELOITTE & TOUCHE
AL-WAZZAN & CO.

8 October 2020
Kuwait

National Bank of Kuwait Group

INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME

30 September 2020 (Unaudited)

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2020 KD 000's	2019 KD 000's	2020 KD 000's	2019 KD 000's
Interest income		171,227	248,397	590,001	740,777
Interest expense		53,894	106,602	221,950	314,924
Net interest income		117,333	141,795	368,051	425,853
Murabaha and other Islamic financing income		55,215	53,879	169,291	155,339
Finance cost and Distribution to depositors		18,477	23,084	64,747	64,215
Net income from Islamic financing		36,738	30,795	104,544	91,124
Net interest income and net income from Islamic financing		154,071	172,590	472,595	516,977
Net fees and commissions		38,266	38,125	109,781	116,825
Net investment income (loss)		3,393	(1,802)	610	6,913
Net gains from dealing in foreign currencies		6,246	11,758	31,859	31,028
Other operating income	5,15	15,888	208	17,576	1,012
Non-interest income		63,793	48,289	159,826	155,778
Net operating income		217,864	220,879	632,421	672,755
Staff expenses		39,466	43,108	124,276	129,435
Other administrative expenses		23,565	25,349	75,566	70,809
Depreciation of premises and equipment		8,361	6,698	25,024	19,165
Amortisation of intangible assets		412	806	1,235	2,384
Operating expenses		71,804	75,961	226,101	221,793
Operating profit before provision for credit losses and impairment losses		146,060	144,918	406,320	450,962
Provision charge for credit losses and impairment losses	3	81,005	37,531	207,649	104,656
Operating profit before taxation		65,055	107,387	198,671	346,306
Taxation	4	5,887	7,841	21,327	26,324
Profit for the period		59,168	99,546	177,344	319,982
Attributable to:					
Shareholders of the Bank		57,584	93,075	168,676	302,168
Non-controlling interests		1,584	6,471	8,668	17,814
		59,168	99,546	177,344	319,982
Basic earnings per share attributable to shareholders of the Bank	6	8 fils	14 fils	23 fils	44 fils

The attached notes 1 to 15 form part of these interim condensed consolidated financial information.

National Bank of Kuwait Group

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

30 September 2020 (Unaudited)

	Three months ended 30 September		Nine months ended 30 September	
	2020 KD 000's	2019 KD 000's	2020 KD 000's	2019 KD 000's
Profit for the period	59,168	99,546	177,344	319,982
Other comprehensive income (loss):				
Investment in debt securities measured at FVOCI:				
Net change in fair value	25,698	19,357	(89,746)	28,031
Net transfer to interim condensed consolidated statement of income	3,703	(130)	14,099	2,948
	<u>29,401</u>	<u>19,227</u>	<u>(75,647)</u>	<u>30,979</u>
Share of other comprehensive income of associates	(4)	3	(293)	(61)
Exchange differences on translation of foreign operations	7,504	4,268	14,472	16,187
	<u>36,901</u>	<u>23,498</u>	<u>(61,468)</u>	<u>47,105</u>
Other comprehensive income (loss) for the period reclassifiable to interim condensed consolidated statement of income in subsequent periods				
Net gain (loss) on investments in equity instruments designated at FVOCI (not reclassifiable to consolidated statement of income in subsequent periods)	183	16	(7,082)	59
	<u>37,084</u>	<u>23,514</u>	<u>(68,550)</u>	<u>47,164</u>
Other comprehensive income (loss) for the period	37,084	23,514	(68,550)	47,164
Total comprehensive income for the period	96,252	123,060	108,794	367,146
Attributable to:				
Shareholders of the Bank	91,527	115,728	107,244	347,540
Non-controlling interests	4,725	7,332	1,550	19,606
	<u>96,252</u>	<u>123,060</u>	<u>108,794</u>	<u>367,146</u>

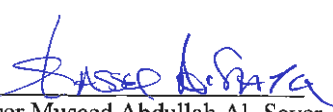
The attached notes 1 to 15 form part of these interim condensed consolidated financial information.

National Bank of Kuwait Group

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 September 2020 (Unaudited)

	Notes	30 September 2020 KD 000's	Audited 31 December 2019 KD 000's	30 September 2019 KD 000's
Assets				
Cash and short term funds		4,404,865	3,787,173	3,579,791
Central Bank of Kuwait bonds		830,645	823,229	825,140
Kuwait Government treasury bonds		477,438	662,175	709,174
Deposits with banks		1,110,462	1,909,081	2,169,763
Loans, advances and Islamic financing to customers		17,634,436	16,552,598	16,359,257
Investment securities		4,633,922	4,214,562	3,995,648
Investment in associates	14	6,257	35,297	33,323
Land, premises and equipment		425,652	433,540	422,447
Goodwill and other intangible assets		583,712	582,927	583,086
Other assets		275,700	270,171	231,608
Total assets		30,383,089	29,270,753	28,909,237
Liabilities				
Due to banks and other financial institutions		6,572,322	7,581,929	7,505,022
Customer deposits		17,499,220	15,930,577	15,786,835
Certificates of deposit issued		948,696	538,611	696,959
Global medium term notes		235,249	227,159	228,638
Subordinated Tier 2 bonds		124,816	124,801	124,793
Sukuk issued	7	230,410	-	-
Other liabilities		775,235	608,516	650,581
Total liabilities		26,385,948	25,011,593	24,992,828
Equity				
Share capital	8	685,019	652,399	652,399
Proposed bonus shares	8	-	32,620	-
Statutory reserve		326,199	326,199	310,666
Share premium account		803,028	803,028	803,028
Treasury shares	8	(39,258)	(39,258)	(45,061)
Treasury shares reserve		25,115	25,115	22,800
Other reserves	8	1,370,977	1,633,641	1,572,418
Equity attributable to shareholders of the Bank		3,171,080	3,433,744	3,316,250
Perpetual Tier 1 Capital Securities		438,438	438,438	210,700
Non-controlling interests		387,623	386,978	389,459
Total equity		3,997,141	4,259,160	3,916,409
Total liabilities and equity		30,383,089	29,270,753	28,909,237


 Nasser Musaed Abdullah Al- Sayer
 Chairman

The attached notes 1 to 15 form part of these interim condensed consolidated financial information.

National Bank of Kuwait Group

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

30 September 2020 (Unaudited)

	Notes	Nine months ended 30 September	
		2020 KD 000's	2019 KD 000's
Operating activities			
Profit for the period		177,344	319,982
Adjustments for:			
Net investment income		(610)	(6,913)
Depreciation of premises and equipment		25,024	19,165
Amortisation of intangible assets		1,235	2,384
Provision charge for credit losses and impairment losses	3	207,649	104,656
Taxation	4	21,327	26,324
Gain on sale of land, premises and equipment	5	(9,896)	-
Operating profit before changes in operating assets and liabilities		422,073	465,598
Changes in operating assets and liabilities:			
Central Bank of Kuwait bonds		(7,416)	(15,269)
Kuwait Government treasury bonds		184,737	162,868
Deposits with banks		789,158	194,479
Loans, advances and Islamic financing to customers		(782,976)	(957,230)
Other assets		20,544	26,276
Due to banks and other financial institutions		(1,159,029)	(585,462)
Customer deposits		1,203,759	1,397,999
Certificates of deposit issued		410,085	245,831
Other liabilities		(58,925)	179,989
Tax paid		(36,151)	(26,523)
Net cash from operating activities		985,859	1,088,556
Investing activities			
Purchase of investment securities		(1,408,042)	(1,097,091)
Proceeds from sale/redemption of investment securities		1,063,330	812,149
Dividend income		649	1,453
Proceeds from sale of investment in associate		694	-
Dividend from associates		-	153
Acquisition of subsidiary net of cash acquired	14	(325)	-
Transaction costs related to acquisition of a subsidiary	14	(1,815)	-
Proceeds from sale of land, premises and equipment		30,978	761
Purchase of land, premises and equipment		(31,316)	(40,541)
Net cash used in investing activities		(345,847)	(323,116)
Financing activities			
Proceeds from issuance of Sukuk	7	228,600	-
Proceeds from sale of treasury shares		-	29,154
Dividends paid		(226,373)	(214,344)
Interest paid on Perpetual Tier 1 capital securities		(11,474)	(6,125)
Profit distribution on Perpetual Tier 1 sukuk by a subsidiary		(2,608)	(2,563)
Dividend paid by a subsidiary to non-controlling interests		(10,465)	(8,093)
Capital increase in a subsidiary contributed by non-controlling interest		-	49,615
Net cash used in financing activities		(22,320)	(152,356)
Increase in cash and short term funds		617,692	613,084
Cash and short term funds at 1 January		3,787,173	2,966,707
Cash and short term funds at 30 September		4,404,865	3,579,791

The attached notes 1 to 15 form part of these interim condensed consolidated financial information.

National Bank of Kuwait Group
INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
30 September 2020 (Unaudited)

	Equity attributable to shareholders of the Bank										KD 000's
	Share capital	Proposed bonus shares	Statutory reserve	Share premium account	Treasury shares	Treasury shares reserve	Other reserves (Note 8)	Total	Perpetual Tier 1 Capital Securities	Non-controlling interests	Total equity
Balance as at 1 January 2020	652,399	32,620	326,199	803,028	(39,258)	25,115	1,633,641	3,433,744	438,438	386,978	4,259,160
Profit for the period	-	-	-	-	-	-	168,676	168,676	-	8,668	177,344
Other comprehensive loss	-	-	-	-	-	-	(61,432)	(61,432)	-	(7,118)	(68,550)
Total comprehensive income	-	-	-	-	-	-	107,244	107,244	-	1,550	108,794
Issue of bonus shares (Note 8)	32,620	(32,620)	-	-	-	-	107,244	-	-	-	(226,373)
Dividends paid (Note 8)	-	-	-	-	-	-	(226,373)	(226,373)	-	-	(11,474)
Interest paid on perpetual Tier 1 Capital Securities	-	-	-	-	-	-	(11,474)	(11,474)	-	(10,465)	(10,465)
Dividend paid by a subsidiary to non-controlling interests	-	-	-	-	-	-	(1,562)	(1,562)	-	(1,046)	(2,608)
Profit distribution on Perpetual Tier 1 sukuk by a subsidiary	-	-	-	-	-	-	-	-	-	29,953	29,953
Acquisition of subsidiaries (Note 14)	-	-	-	-	-	-	(130,499)	(130,499)	-	(19,347)	(149,846)
Modification loss on deferral of loans instalments (Note 15)	-	-	-	-	-	-	-	-	-	-	-
At 30 September 2020	685,019	-	326,199	803,028	(39,258)	25,115	1,370,977	3,171,080	438,438	387,623	3,997,141
Balance as at 1 January 2019	621,332	31,067	310,666	803,028	(65,425)	14,010	1,448,579	3,163,257	210,700	327,353	3,701,310
Profit for the period	-	-	-	-	-	-	302,168	302,168	-	17,814	319,982
Other comprehensive income	-	-	-	-	-	-	45,372	45,372	-	1,792	47,164
Total comprehensive income	-	-	-	-	-	-	347,540	347,540	-	19,606	367,146
Issue of bonus shares (Note 8)	31,067	(31,067)	-	-	-	-	347,540	-	-	-	29,154
Sale of treasury shares	-	-	-	-	-	-	(214,344)	(214,344)	-	-	(6,125)
Dividends paid (Note 8)	-	-	-	-	-	-	(6,125)	(6,125)	-	(8,093)	(8,093)
Interest paid on perpetual Tier 1 Capital Securities	-	-	-	-	-	-	(1,535)	(1,535)	-	(1,028)	(2,563)
Dividend paid by a subsidiary to non-controlling interests	-	-	-	-	-	-	(1,551)	(1,551)	-	(3,688)	(5,239)
Profit distribution on Perpetual Tier 1 sukuk by a subsidiary	-	-	-	-	-	-	-	-	-	53,303	53,303
Increase in holding in a subsidiary	-	-	-	-	-	-	(146)	(146)	-	455	309
Capital increase in a subsidiary	-	-	-	-	-	-	-	-	-	-	-
Other movements	-	-	-	-	-	-	-	-	-	-	-
At 30 September 2019	652,399	-	310,666	803,028	(45,061)	22,800	1,572,418	3,316,250	210,700	389,459	3,916,409

The attached notes 1 to 15 form part of these interim condensed consolidated financial information.

National Bank of Kuwait Group

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 September 2020 (Unaudited)

1 Incorporation and registration

The interim condensed consolidated financial information of National Bank of Kuwait S.A.K.P. (the "Bank") and its subsidiaries (collectively the "Group") for the nine months period ended 30 September 2020 was authorised for issue in accordance with a resolution of the directors on 8 October 2020. The Bank is a public shareholding company incorporated in the State of Kuwait in 1952 and is registered as a bank (commercial registration number – 8490) with the Central Bank of Kuwait. The Bank's registered office is at Al Shuhada Street, P.O. Box 95, Safat 13001, Kuwait.

2 Accounting policies

Basis of preparation

The interim condensed consolidated financial information of the Group has been prepared in accordance with International Accounting Standard (IAS) 34, 'Interim Financial Reporting'. The accounting policies used in the preparation of this 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 except as noted below.

The annual consolidated financial statements for the year ended 31 December 2019 were prepared in accordance with the regulations issued by Central Bank of Kuwait (CBK) for financial services institutions in the State of Kuwait. The regulations require the expected credit loss on credit facilities to be measured at the higher of the amount computed under IFRS 9 in accordance with CBK guidelines or provisions as required by CBK instructions, with consequent impact on related disclosures. The regulations also require adoption of all other requirements of International Financial Reporting Standards as issued by the International Accounting Standards Board ("IASB").

Further, during the period ended 30 September 2020, the CBK has extended their regulations to require that modification losses of financial assets (consumer and other instalment loans and credit card receivables) arising from payment holidays provided to customers in response to the economic impact of Covid -19 are to be recognized in retained earnings instead of consolidated statement of income (Note 15).

The interim condensed consolidated financial information does not contain all information and disclosures required for the annual consolidated financial statements prepared in accordance with International Financial Reporting Standards, and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2019. Further, results for interim periods are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2020.

Amendments to IFRSs which are effective for annual accounting period starting from 1 January 2020 did not have any material impact on the accounting policies, financial position or performance of the Group.

3 Provision charge for credit losses and impairment losses

	Three months ended 30 September		Nine months ended 30 September	
	2020 KD 000's	2019 KD 000's	2020 KD 000's	2019 KD 000's
Provision charge for credit facilities – specific	47,179	33,517	125,454	91,972
Provision charge for credit facilities – general	32,816	1,278	53,784	9,358
Other impairment losses	1,010	2,736	28,411	3,326
	<u>81,005</u>	<u>37,531</u>	<u>207,649</u>	<u>104,656</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 September 2020 (Unaudited)

4 Taxation

	Three months ended 30 September		Nine months ended 30 September	
	2020 KD 000's	2019 KD 000's	2020 KD 000's	2019 KD 000's
National Labour Support Tax	1,396	2,327	4,161	7,623
Zakat	642	1,067	1,889	3,393
Contribution to Kuwait Foundation for the Advancement of Sciences	532	913	1,359	2,811
Overseas tax	3,317	3,534	13,918	12,497
	<u>5,887</u>	<u>7,841</u>	<u>21,327</u>	<u>26,324</u>

5 Other operating income

During the period, the Bank sold a property to a third party for a sale consideration of KD 29,750 thousand. The realised gain on the sale of KD 9,896 thousand is recorded under other operating income in the interim condensed consolidated statement of income. Further the Group received KD 6,109 thousand as Government support for Covid-19 towards staff expenses (refer to Note 15).

6 Earnings per share

Basic earnings per share is calculated by dividing the profit for the period attributable to shareholders of the Bank (adjusted for interest and profit paid on Perpetual Tier 1 Capital Securities) by the weighted average number of shares outstanding during the period net of treasury shares. There are no dilutive potential shares that are convertible into shares.

	Three months ended 30 September		Nine months ended 30 September	
	2020 KD 000's	2019 KD 000's	2020 KD 000's	2019 KD 000's
Profit attributable to shareholders of the Bank	57,584	93,075	168,676	302,168
Less: Interest paid on Perpetual Tier 1 capital securities	-	-	(11,474)	(6,125)
Less: Profit distribution on Perpetual Tier 1 sukuk by a subsidiary attributable to shareholders of the Bank	-	-	(1,562)	(1,535)
	<u>57,584</u>	<u>93,075</u>	<u>155,640</u>	<u>294,508</u>
Weighted average number of shares outstanding during the period net of treasury shares (thousand)	6,791,175	6,779,038	6,791,175	6,762,242
Basic earnings per share	<u>8 fils</u>	<u>14 fils</u>	<u>23 fils</u>	<u>44 fils</u>

Earnings per share calculations for the period ended 30 September 2019 have been adjusted to take account of the bonus shares issued in 2020.

7 Global Medium Term Sukuk

During 2019, Boubyan Bank K.S.C.P, a subsidiary of the Group, established a USD 1 billion Global medium term Sukuk programme ("GMTN programme"). On 18 February 2020, Boubyan Bank issued senior unsecured Sukuk amounting to USD 750 million due in February 2025 under the GMTN programme through a wholly owned special purpose vehicle. These Sukuk were issued at 100 per cent of nominal value and carry a fixed profit rate at 2.593% per annum payable semi-annually in arrears.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
INFORMATION

30 September 2020 (Unaudited)

8 Shareholders' equity

a) The authorised share capital of the Bank comprises 7,500,000,000 shares (31 December 2019: 7,500,000,000 shares and 30 September 2019: 7,500,000,000 shares) of 100 fils each. The issued and fully paid up share capital of the Bank comprises 6,850,185,181 shares (31 December 2019: 6,523,985,887 shares and 30 September 2019: 6,523,985,887 shares) of 100 fils each.

b) Treasury shares

	30 September 2020	Audited 31 December 2019	30 September 2019
Number of treasury shares	59,010,000	56,200,000	64,506,852
Treasury shares as a percentage of total shares in issue	0.9%	0.9%	1.0%
Cost of treasury shares (KD thousand)	39,258	39,258	45,061
Market value of treasury shares (KD thousand)	51,339	60,134	61,088
Weighted average market value per treasury share (fils)	842	947	938

c) Dividend and bonus shares

The Annual General Assembly meeting of the shareholders held on 7 March 2020 approved 5% bonus shares (2019: 5%) and a cash dividend of 35 fils per share (2019: 35 fils per share) for the year ended 31 December 2019. The cash dividend amounting to KD 226,373 thousand was paid subsequently. The bonus shares increased the number of issued and fully paid up shares by 326,199,294 (2019: 310,665,994) and share capital by KD 32,620 thousand (2019: KD 31,067 thousand).

National Bank of Kuwait Group

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION
30 September 2020 (Unaudited)

8 Shareholders' equity (continued)

d) Other reserves

KD 000's

	General reserve	Retained earnings	Foreign currency translation reserve	Cumulative changes in fair values	Share based payment reserve	Proposed cash dividend	Total other reserves
Balance as at 1 January 2020	117,058	1,429,694	(207,046)	53,153	14,409	226,373	1,633,641
Profit for the period	-	168,676	-	-	-	-	168,676
Other comprehensive income (loss)	-	-	14,938	(76,370)	-	-	(61,432)
Total comprehensive income (loss)	-	168,676	14,938	(76,370)	-	-	107,244
Dividends paid	-	-	-	-	-	(226,373)	(226,373)
Interest paid on perpetual Tier 1 Capital Securities	-	(11,474)	-	-	-	-	(11,474)
Profit distribution on Perpetual Tier 1 sukuk by a subsidiary	-	(1,562)	-	-	-	-	(1,562)
Realised loss on equity investments at FVOCI	-	(61)	-	61	-	-	-
Modification loss on deferral of loans instalments (Note 15)	-	(130,499)	-	-	-	-	(130,499)
At 30 September 2020	117,058	1,454,774	(192,108)	(23,156)	14,409	-	1,370,977
Balance as at 1 January 2019	117,058	1,315,182	(225,725)	13,311	14,409	214,344	1,448,579
Profit for the period	-	302,168	-	29,590	-	-	302,168
Other comprehensive income	-	-	15,782	-	-	-	45,372
Total comprehensive income	-	302,168	15,782	29,590	-	-	347,540
Dividends paid	-	-	-	-	-	(214,344)	(214,344)
Interest paid on perpetual Tier 1 capital securities	-	(6,125)	-	-	-	-	(6,125)
Profit distribution on Perpetual Tier 1 sukuk by a subsidiary	-	(1,535)	-	-	-	-	(1,535)
Realised gain on equity investments at FVOCI	-	2,292	-	(2,292)	-	-	-
Increase in holding in a subsidiary	-	(1,551)	-	-	-	-	(1,551)
Other movements	-	(146)	-	-	-	-	(146)
At 30 September 2019	117,058	1,610,285	(209,943)	40,609	14,409	-	1,572,418

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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9 Segmental analysis

The Group organises and manages its operations by geographic territory in the first instance, primarily Domestic and International. Within its domestic operations, the Group segments its business into Consumer and Private Banking, Corporate Banking, Investment Banking and Asset Management, Islamic Banking and Group Centre. All operations outside Kuwait are classified as International. Management treats the operations of these segments separately for the purposes of decision making, resource allocation and performance assessment.

Consumer and Private Banking

Consumer Banking provides a diversified range of products and services to individuals. The range includes consumer loans, credit cards, deposits, foreign exchange and other branch related services. Private Banking provides a comprehensive range of customised and innovative banking services to high net worth individuals and to institutional clients.

Corporate Banking

Corporate Banking provides a comprehensive product and service offering to business and corporate customers, including lending, deposits, trade finance, foreign exchange and advisory services.

Investment Banking and Asset Management

Investment Banking provides a full range of capital market advisory and execution services. The activities of Asset Management include wealth management, asset management, custody, brokerage and research.

Islamic Banking

Islamic banking represents the financial results of Boubyan Bank K.S.C.P., the Islamic banking subsidiary of the Group.

Group Centre

Group Centre includes treasury, investments, and other defined Group activities. Treasury provides a comprehensive range of treasury services and products to its clients, and is also responsible for the Bank's liquidity and market risk management. Group Centre includes any residual in respect of transfer pricing and inter segment allocations.

International

International includes all branches, subsidiaries and associates outside Kuwait.

The following table presents net operating income, profit for the period, total assets and total liabilities information in respect of the Group's business segments:

	30 September 2020						
	Consumer and Private Banking KD 000's	Corporate Banking KD 000's	Investment Banking and Asset Management KD 000's	Islamic Banking KD 000's	Group Centre KD 000's	International KD 000's	Total KD 000's
<i>Nine months</i>							
Net operating income	206,617	92,701	20,553	126,039	29,759	156,752	632,421
Profit (loss) for the period	98,495	34,075	11,177	23,021	(15,323)	25,899	177,344
Total assets	4,691,141	5,126,688	63,706	6,276,096	3,093,957	11,131,501	30,383,089
Total liabilities	6,381,070	2,397,240	9,204	5,662,872	182,818	11,752,744	26,385,948

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9 Segmental analysis (continued)

	30 September 2019						
	Consumer and Private Banking KD 000's	Corporate Banking KD 000's	Investment Banking and Asset Management KD 000's	Islamic Banking KD 000's	Group Centre KD 000's	International KD 000's	Total KD 000's
<i>Nine months</i>							
Net operating income	216,324	120,347	21,212	113,294	37,130	164,448	672,755
Profit for the period	134,096	41,850	11,988	45,252	3,055	83,741	319,982
Total assets	4,662,952	5,048,390	60,794	5,032,954	3,691,700	10,412,447	28,909,237
Total liabilities	5,441,446	2,517,689	8,655	4,387,912	1,388,172	11,248,954	24,992,828

10 Commitments and contingent liabilities

	30 September 2020 KD 000's	Audited 31 December 2019 KD 000's	30 September 2019 KD 000's
Commitments on behalf of customers for which there are corresponding liabilities by the customers concerned:			
Acceptances	142,152	237,145	254,610
Letters of credit	405,308	459,233	507,613
Guarantees	3,822,332	3,891,746	3,913,155
	4,369,792	4,588,124	4,675,378

Irrevocable commitments to extend credit amount to KD 1,209,271 thousand (31 December 2019: KD 701,471 thousand, 30 September 2019: KD 815,872 thousand). This includes commitments to extend credit which are irrevocable over the life of the facility or are revocable only in response to a material adverse change.

In the normal course of business, the Group has exposure to various indirect credit commitments which, though not reflected in the interim condensed consolidated statement of financial position, are subject to normal credit standards, financial controls and monitoring procedures.

These credit commitments do not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded. Credit losses, if any, which may result from exposure to such commitments are not expected to be significant.

The Group has commitments in respect of capital expenditure amounting to KD 58,453 thousand (31 December 2019: KD 57,299 thousand, 30 September 2019: KD 26,739 thousand).

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11 Fair value of financial instruments

The fair value of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Group determines fair values using valuation techniques.

The Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using quoted prices for identical or similar instruments in market that are considered less than active or other valuation techniques in which all significant inputs are observable from market data. Debt securities under this category mainly include sovereign debt instruments in the Middle East & North Africa (MENA) region.

Level 3: valuation techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

The following table provides the fair value measurement hierarchy of the Group's financial instruments recorded at fair value:

<i>30 September 2020</i>	Level 1 KD 000's	Level 2 KD 000's	Level 3 KD 000's	Total KD 000's
Debt securities	3,226,958	382,596	14,000	3,623,554
Equities and other investments	44,681	115,795	54,938	215,414
	<u>3,271,639</u>	<u>498,391</u>	<u>68,938</u>	<u>3,838,968</u>
Derivative financial instruments (Note 12)	-	(214,774)	-	(214,774)
<i>31 December 2019</i>	Level 1 KD 000's	Level 2 KD 000's	Level 3 KD 000's	Total KD 000's
Debt securities	2,645,665	512,378	14,000	3,172,043
Equities and other investments	47,480	119,941	64,942	232,363
	<u>2,693,145</u>	<u>632,319</u>	<u>78,942</u>	<u>3,404,406</u>
Derivative financial instruments (Note 12)	-	(68,172)	-	(68,172)
<i>30 September 2019</i>	Level 1 KD 000's	Level 2 KD 000's	Level 3 KD 000's	Total KD 000's
Debt securities	2,621,024	356,943	14,000	2,991,967
Equities and other investments	46,498	71,883	77,600	195,981
	<u>2,667,522</u>	<u>428,826</u>	<u>91,600</u>	<u>3,187,948</u>
Derivative financial instruments (Note 12)	-	(108,822)	-	(108,822)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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11 Fair value of financial instruments (continued)

The table below analyses the movement in level 3 and the income (interest, dividend and realised/unrealised gain) generated during the periods.

	At 1 January 2020 KD 000's	Change in fair value KD 000's	Additions KD 000's	Sale/ redemption KD 000's	Exchange rate movements KD 000's	At 30 September 2020 KD 000's	Net gains (losses) in the interim condensed consolidated statement of income KD 000's
Debt securities	14,000	-	-	-	-	14,000	682
Equities and other investments	64,942	(9,317)	341	(1,137)	109	54,938	(1,401)
	<u>78,942</u>	<u>(9,317)</u>	<u>341</u>	<u>(1,137)</u>	<u>109</u>	<u>68,938</u>	<u>(719)</u>

	At 1 January 2019 KD 000's	Change in fair value KD 000's	Additions KD 000's	Sale/ redemption KD 000's	Exchange rate movements KD 000's	At 30 September 2019 KD 000's	Net gains (losses) in the interim condensed consolidated statement of income KD 000's
Debt securities	14,000	-	-	-	-	14,000	730
Equities and other investments	83,787	(3,343)	1,568	(4,843)	431	77,600	(1,914)
	<u>97,787</u>	<u>(3,343)</u>	<u>1,568</u>	<u>(4,843)</u>	<u>431</u>	<u>91,600</u>	<u>(1,184)</u>

12 Derivative financial instruments

Derivative financial instruments are financial instruments that derive their value by referring to interest rates, foreign exchange rates, index of prices or rates and credit rating or credit index. Notional principal amounts merely represent amounts to which a rate or price is applied to determine the amounts of cash flows to be exchanged and do not represent the potential gain or loss associated with the market or credit risk of such instruments.

Derivative financial instruments are carried at fair value in the consolidated statement of financial position. Positive fair value represents the cost of replacing all transactions with a fair value in the Group's favour had the rights and obligations arising from that instrument been closed in an orderly market transaction at the reporting date. Credit risk in respect of derivative financial instruments is limited to the positive fair value of the instruments. Negative fair value represents the cost to the Group's counter parties of replacing all their transactions with the Group.

The Group deals in interest rate swaps to manage its interest rate risk on interest bearing assets and liabilities and to provide interest rate risk management solutions to customers. Similarly the Group deals in forward foreign exchange contracts for customers and to manage its foreign currency positions and cash flows.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 September 2020 (Unaudited)

12 Derivative financial instruments (continued)

Interest rate swaps used to hedge the change in fair value of the Group's financial assets and liabilities and which qualifies as effective hedging instruments are disclosed as 'held as fair value hedges'. Other interest rate swaps and forward foreign exchange contracts are carried out for customers or used for hedging purpose but do not meet the qualifying criteria for hedge accounting. The risk exposures on account of derivative financial instruments for customers are covered by entering into opposite transactions (back to back) with counter parties or by other risk mitigating transactions.

Interest rate swaps

Interest rate swaps are contractual agreements between two counter-parties to exchange interest payments on a defined principal amount for a fixed period of time. In cross currency interest rate swaps, the Group exchanges interest payment in two different currencies on a defined principal amount for a fixed period of time and also exchanges defined principal amounts in two different currencies at inception of the contract and re-exchanges principal amounts on maturity.

Forward foreign exchange

Forward foreign exchange contracts are agreements to buy or sell currencies at a specified rate and at a future date.

The fair value of derivative financial instruments included in the financial records, together with their notional amounts is summarised as follows:

	30 September 2020			Audited 31 December 2019			30 September 2019		
	Positive fair value KD 000's	Negative fair value KD 000's	Notional KD 000's	Positive fair value KD 000's	Negative fair value KD 000's	Notional KD 000's	Positive fair value KD 000's	Negative fair value KD 000's	Notional KD 000's
Interest rate swaps (held as fair value hedges)	9,360	243,600	3,377,812	15,990	86,968	3,064,122	5,555	106,770	2,666,037
Interest rate swaps (others)	22	21	1,531	263	255	90,364	346	336	83,842
Forward foreign exchange contracts	23,358	3,893	2,767,018	17,356	14,558	3,599,153	10,110	17,727	3,277,056
	32,740	247,514	6,146,361	33,609	101,781	6,753,639	16,011	124,833	6,026,935

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13 Related party transactions

Related parties comprise Board Members and Executive Officers of the Bank, their close family members, companies controlled by them or close family members and associates of the Group. Certain related parties were customers of the Group in the ordinary course of business. Transactions with related parties were made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with unrelated parties and did not involve more than a normal amount of risk. Lending to Board Members and their related parties is secured by tangible collateral in accordance with regulations of Central Bank of Kuwait.

Details of the interests of related parties are as follows:

	Number of Board Members or Executive Officers			Number of related parties			KD 000's		
	30 September 2020	31 December 2019	30 September 2019	30 September 2020	31 December 2019	30 September 2019	30 September 2020	31 December 2019	30 September 2019
Board Members									
Loans (secured)	3	3	3	17	16	15	67,498	78,779	76,162
Contingent liabilities	-	-	-	8	9	9	26,269	30,671	31,311
Credit cards	3	7	5	19	10	11	51	46	84
Deposits	9	9	7	56	54	55	47,693	30,627	36,603
Collateral against credit facilities	3	3	3	12	13	12	265,000	335,201	309,141
Interest and fee income							2,565	3,624	2,645
Interest expense							102	315	240
Purchase of equipment and other expenses							55	30	4
Executive Officers									
Loans	2	2	2	6	7	7	3,198	3,422	3,013
Contingent liabilities	3	3	3	-	-	-	2	2	2
Credit cards	12	13	13	9	7	6	36	108	119
Deposits	14	13	13	37	39	38	13,311	7,101	7,922
Interest and fee income							430	121	83
Interest expense							84	115	94
Associates									
Placements							-	52,280	62,193
Acceptances							-	17,297	15,659

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30 September 2020 (Unaudited)

13 Related party transactions (continued)

Details of compensation to key management personnel are as follows:

	Three months ended 30 September		Nine months ended 30 September	
	2020 KD 000's	2019 KD 000's	2020 KD 000's	2019 KD 000's
Salaries and other short term benefits	1,054	2,501	2,643	7,395
Post-employment benefits	49	105	176	362
Share based compensation	177	267	598	988
	<u>1,280</u>	<u>2,873</u>	<u>3,417</u>	<u>8,745</u>

14 Business combination

During the period, the Group, through its subsidiary Boubyan Bank K.S.C.P, acquired an additional equity interest in Bank of London and Middle East plc ("BLME") (previously classified as "investment in associate"), resulting in an increase in its effective ownership from 27.91% to 71.08%. Having obtained control, the Group reclassified its investment in BLME from associate to subsidiary and consolidated the financial statements of BLME from 27 January 2020 ("date of acquisition").

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

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

The provisional fair values of assets acquired and liabilities assumed, as well as the non-controlling interests at the proportionate share of BLME's identifiable net assets, are summarized as follows:

ASSETS	KD 000's
Cash and short term funds	28,602
Deposits with banks	3,001
Islamic financing to customers	522,700
Investment securities	34,294
Investments in associates	484
Other assets	26,611
	<u>615,692</u>
LIABILITIES	
Due to banks and other financial institutions	149,422
Customer deposits	364,884
Other liabilities	10,592
	<u>524,898</u>
Net assets	90,794
Non-controlling interests	(3,274)
	<u>87,520</u>
Provisional fair value of net assets acquired by the Group	<u>87,520</u>

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14 Business combination (continued)

	KD 000's
Cash and cash equivalents in subsidiary acquired	28,602
Less: Consideration paid	<u>(28,927)</u>
Cash outflow on acquisition	<u>(325)</u>

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

The interim condensed consolidated statement of income of the Group for the nine months period ended 30 September 2020, includes operating income of KD 10,330 thousand and profit attributable to the equity holders of the Bank of KD 776 thousand in respect of BLME.

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

15 Impact of COVID-19

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

Covid-19 support measures

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

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

Further, during the period, the Group received an aggregate amount of KD 6,109 thousand as Covid-19 support towards staff expenses from the Government in some of the jurisdictions where the Group operates. This is included in other operating income in the interim condensed consolidated statement of income (refer to Note 5).

30 September 2020 (Unaudited)

15 Impact of COVID-19 (continued)

Kuwait banks announced postponement of payment of instalments of consumer and other instalment loans and credit card instalments for all customers for a period of six months effective from April 2020 with cancellation of interest and profits resulting from this deferral. This deferral scheme also applies to loans and financing facilities to SMEs. The instalment deferrals are considered as short-term liquidity support to address borrower's potential cash-flow issues. The customers have the option not to participate in this scheme. Additionally recoveries of instalments and interest on loans to corporate customers impacted by Covid-19 are postponed for a period of six months effective from March 2020. Similar measures were announced in many of the jurisdictions where the Group has operations.

Consumer and other instalment loans deferral

The Group implemented the consumer and other instalment loans deferral by postponing the instalments falling due within the six months period from 1 April 2020 to 30 September 2020 with a corresponding extension of the facility tenure. The instalment deferral resulted in a loss of KD 149,846 thousand to the Group arising from the modification of contractual cash-flows. The loss attributable to Bank's equity shareholders amounting to KD 130,499 thousand is charged to retained earnings and the remaining loss to the non-controlling interest, in accordance with the Group's accounting policy as stated in Note 2.

Expected Credit Loss (ECL) estimates

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

Significant increase in credit risk

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

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

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

Macro-economic factors

The Group considered the effects of volatility witnessed in the range of macroeconomic factors and in the scenarios used for determination of ECL. In particular, given the continuing uncertainties and impact stemming from Covid-19, and considering that the situation is fast-evolving, the Group revised certain assumptions reflected through constructing a plausible forward-looking view of the macroeconomic factors. The Group applies appropriate probability weightages on the 3 scenarios (Baseline, Benign, Severe) and, combined with the revised forecasts of macro-economic factors into all 3 scenarios are significantly conservative when compared to year ended 31 December 2019. The Group also applied management overlay in assessing the ECL for the retail segment given that employees of specific industries in the private sector are expected to be most impacted due to Covid-19. These adjustments and management overlays resulted in significant increase in the amount of ECL requirements for the period ended 30 September 2020.

30 September 2020 (Unaudited)

15 Impact of COVID-19 (continued)

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

Other impacts

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