WARBA BANK

2020 ANNUAL REPORT

Redefining Digital Banking

بسم الله الرحمن الرحيم

And say, "Do (right deeds); so Allah will soon see your doing, and His Messenger and the believers (will see). And you will soon be turned back to the Knower of the Unseen and the Witnessed; then He will fully inform you of whatever you were doing."

True are the words of Allah the Almighty

{Surat Al Tawbah Verse105}

H.H. Sheikh
Nawaf Al Ahmad Al Jaber Al Sabah
The Amir Of The State Of Kuwait

H.H. Sheikh
Meshal Al Ahmad Al Jaber Al Sabah
The Crown Prince Of The State Of Kuwait

H.H. Sheikh
Sabah Al Khaled Al Hamad Al Sabah
The Prime Minister

06

CONTENT

08

PROFILE, VISION & MISSION

PROFILE

Warba Bank was established on February 17th, 2010 by virtue of the Amiri Decree No. 289/2009, and was officially enrolled in the Central Bank of Kuwait's Register of Islamic Banks on April 7th , 2010. The State of Kuwait, represented by Kuwait Investment Authority (KIA), owns 25.515% (Direct and Indirect), The Public Institution for Social Security (PIFSS) at 7.923% (Indirect), Al Sayer Group Holding Company at 10.006% (Direct), and Mr. Abdullah Saleh Abdullah Al Shalfan at 7.354% (Direct).

VISION

Become the leading digital-first Islamic corporate and retail bank in Kuwait.

MISSION

- Provide innovative financial solutions and outstanding digital experiences to help our customers fulfill their life ambitions.
- Provide our staff with a rewarding work environment and nurture high-quality talent.
- Deliver sustainable profitability for our shareholders.

VALUES

CAN DO
We get things done. Fast. And we don't let obstacles stand in our way.

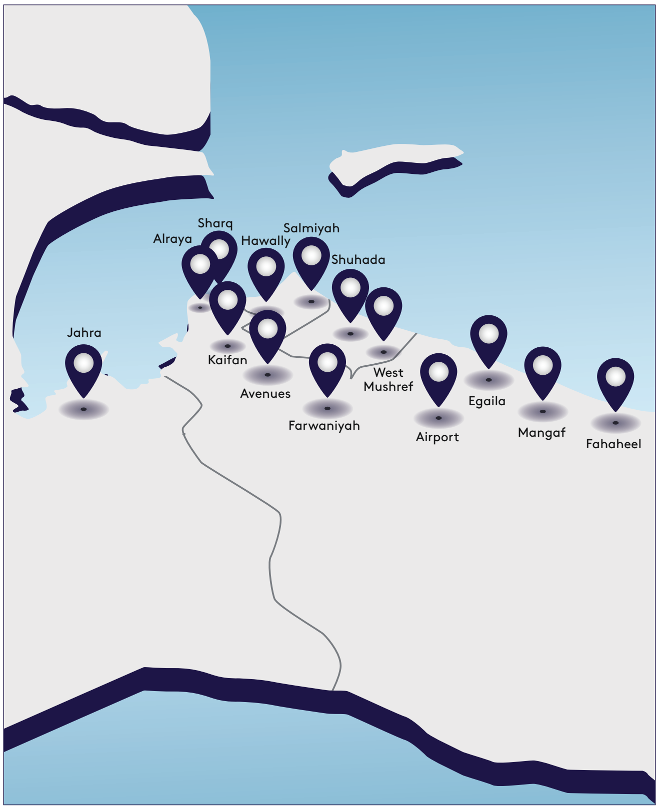
WINNING TEAM SPIRIT
We work with our clients and team member to deliver the right solution.

AMBITION
We have the drive and enthusiasm to always go one better.

RETAIL BANKING BRANCHES

14 branches, 19 branch ATMs and 58 offsite ATMs.

Branch	Address
Avenues	Avenues Mall, Grand Avenues
Egaila	Arabiya Mall
Fahaheel	Balat Al-Shuhadaa St -Remal Complex
Farwaniyah	Habib Al Monawir St – Next to Metro Complex
Hawally	Hawally, Beirut Street, E-mall
Jahra	Old Jahra - Marzoug AlMeteb St. - Sahara Mall
Alraya	Sharq – Block 7 - Omar Ibn Al-Khattab Street – Parcel 6 – Al-Raya Tower ground floor
Mangaf	Mangaf Co-op, Block 4
Salmiyah	Salem AlMubarak Street - Laila Gallery Complex
Sharq	Ahmed Al Jaber St - Next to the Police Station Roundabout
Shuhada	AlShuhuda, Block 4, AlShuhuda Co-op
West Mushref	West Mishref - PIFSS Building
Kaifan	Block 5 - Kuwait Sport club – Al Exandria Street – Facing kaifan Tel-communication tower and Government Center For Testing And Quality Control
Airport	Kuwait Airport T4



10

CHAIRMAN'S MESSAGE

In the name of Allah, the Mercifull,

Dear Shareholders,

Peace, mercy and blessings of God be upon you.

With Gods blessings, your support and efforts and the unshakable trust of our clients, together we completed a year full of challenges at various levels, overcoming it with more faith, strength and steadfastness than ever before. The year 2020 was a year like no other. For, it witnessed a worldwide pandemic in the spread of COVID-19, and perhaps it is considered one of the most severe years to affect the banking sector in over a century. COVID-19 has caused the fastest recession of the global economy since World War II.

Furthermore, because we at Warba Bank believe in our path, we have distinguished ourselves by transforming all the negative impacts left by the pandemic into strengths and sources for a positive fresh start, filled with optimism, continuous success and banking progress at a steady pace.
I am pleased this year, on behalf of myself, my brothers, members of the board of directors and the executive body of the bank, to present you the Warba Bank annual report, in which we proudly share our range of achievements. In such a challenging year, these achievements mean even more to us and testify to our undeniable ability to deal with unforeseen barriers to business, such as COVID-19.

Continuous growth and effective measures to counter the effects of the pandemic

Warba Bank was able to overcome an increase in unforeseen obstacles caused by the pandemic, with a steady growth in assets despite the challenges. With thanks to God, the bank managed the situation efficiently and effectively, implementing sound measures to ward off the negative effects of COVID-19 and macroeconomic factors.
In addition, the bank succeeded in developing a contingency plan to remotely meet customers needs considering the complete closure of branches during lockdown. The bank worked to develop a new mechanism within a flexible and smooth system to make it convenient for customers to to fulfill their banking needs. The bank readily provided these services without any impact on its usual banking operations in order to offer customers minimum disruption and further cement their trust in us.

2020
ANNUAL REPORT

An exhaustive year...a global pandemic...

WARBA...CONTINUOUS GROWTH AND DIGITAL TRANSFORMATION

Our human resources…our strength.

COVID-19 pandemic has forced companies to deploy their human resources teams to face the crisis head on. Our bank has witnessed many group efforts to ensure the work environment is a safe one that guarantees the health and safety of employees and customers. The bank consistently follows many precautionary measures in place to limit the spread of infections. We achieve this by following strict health protocols, while also applying many new methods of work and encouraging remote work (under the supervision of a professional work team consisting of basic departments), adhering to decisions of the state and the relevant authorities.

Ongoing cooperation with the Central Bank of Kuwait

In light of the directives set out from the Central Bank of Kuwait and based on our social responsibility and continuous efforts to strengthen the role of the private sector, Warba Bank, in cooperation with the Central Bank of Kuwait and the Kuwait Banking Association, has contributed in the development of a banking work protocol. Warba also hastened to contribute to the Central Bank of Kuwait fund, worth 10 million dinars, to support health emergencies and government efforts to combat the spread of COVID-19.
To enhance governance and risk management, the bank has developed and implemented a special system for stress testing, as well as resetting and verifying the credit rating system to ensure compliance with the assessment of provisions and financial solvency according to the requirements of the Central Bank of Kuwait.
In addition, many initiatives have been taken to enhance resilience and sustainability, including business continuity testing and disaster recovery, taking into account the factors and circumstances resulting from this pandemic.

A top financial achievement in Kuwait

With an insightful vision, Warba continued its tireless work to enhance its position in Kuwait's banking industry. Despite the great challenges and the grave effects that the pandemic left on the financial sector in the world, and in particular Gulf countries and the State of Kuwait, Warba Bank succeeded in accomplishing one of the years major deals. Warba issued 150 million Kuwaiti Dinars in an unsecured priority sukuk, listed as the first Kuwaiti Dinar sukuk issued by a Kuwaiti financial institution.

Leading digital innovation

Because 'digital' has been at the forefront of solutions that Warba Bank has championed since its inception, and in light of the increasing need for these solutions due to the pandemic, the bank succeeded in introducing new digital updates that met and exceeded customer requirements. Out of its interest in Kuwaiti youth, Warba Bank launched the Bloom chip, a comprehensive renewal of the bank's Warba Youth chip, with the first digital banking application dedicated to youth in the region. This application gives customers an updated experience with ease of use.
The bank also redeveloped and relaunched the Fayez app, a sports program that falls under the bank's social responsibility umbrella. The tool encourages subscribers (made up of customers and non-customers) to carry out sports activities beneficial to their health and society, in return for points to exchange for prizes, motivating them to pursue a healthy lifestyle.

In the interest and desire of developing and enhancing digital services for the corporate sector, Warba also launched a new website for corporate internet banking services, providing corporate clients with many remote features and services to meet there needs from any place at any time. Concurrently, the bank maintained important strategic relationships with major companies in the State of Kuwait.

Expansion and relocation to new headquarters in Al Raya Tower

This year also witnessed the move of Warba Bank from the old headquarters to the new location at Al Raya Tower, which led to the unification of banking operations and all departments under one roof. In line with the Warba Bank promise to be closer to its customers and enhance their banking experience, the bank also opened three new branches during 2020.

Two awards ...and a promising future

During 2020, the bank won two prestigious awards from the Global Banking & Finance Review for the second year in a row. Award one was issue for the 'Fastest Growing Corporate Sector in Kuwait 2020' and the second was the 'Best Islamic Digital Bank 2020' award. Fitch also reaffirmed the credit rating of Warba Bank at A + and Moody's at "Baa2", with a stable outlook from both agencies.
These two awards coincide with the bank's conclusion of its first decade in banking operations in Kuwait, capping a successful journey and opening the horizon for a promising future.

A new strategy for a better future

In light of the effects that the pandemic have had so far and going forward, Warba Bank has developed its new strategy to overcome any challenges and unfavourable conditions, smoothly and flexibly. With the expected digital transformation in consumer behaviour and the increasing need for innovative digital financial services, Warba is in a good position and is ready to go further with greater strength next year thanks to its proactive services and network of strategic partnerships, with its constant focus on customers first.

A word of thanks from the heart

In conclusion, I extend my sincere thanks to the shareholders, all members of the board of directors and the executive management, and to all the officials of the Central Bank of Kuwait, headed by His Excellency the Governor Dr Muhammad Yusef Al-Hashel. I also extend my thanks and appreciation to all Warba Bank employees and their families for their dedication, continuous support and tremendous efforts, especially during the pandemic.

Your solidarity and cooperation were the basis of our great success, ensuring our safe and smooth crossing into a new year, and we ask God Almighty to help us all and lead us towards further success for Warba Bank.

Peace, mercy and blessings of God be upon you.

Abdul-Wahab Abdullah Al-Houti
Chairman of Board of Directors

14

BOARD OF DIRECTORS

Mr. Abdulwahab Abdullah Al Houti
Chairman (Elected)

Mr. Hamad Musaed Al Sayer
Vice Chairman (Elected)

Mr. Bader Khalid Al Shalfan
Board Member (Elected)

Mr. Abdulaziz Abdullah Al Jaber
Board Member (Elected)

Mr. Mohamed Hamed Al Shalfan
Board Member (Elected)

Mr. Mohamed Riyad Al Mutawa
Board Member (Elected)

Mr. Mohammad Abdulredha Saleem
Board Member (Elected)

Mr. Musaab Omar Al Fulaij
Board Member (Elected)

Mr. Hisham Abdulrazzaq Al Razzuqi
Board Member (Elected)
(Independent on 30/12/2020)

Mr. Yousef Ibrahim Al Ghanim
Board Member (Elected)

18

FATWA & SHARIA SUPERVISORY BOARD MEMBERS

Sheikh Dr. Isam Khalaf Al Enazi
Chairman of FSSB

Dr. Isam Khalaf Al Enazi is a faculty member at the Faculty of Sharia and Islamic Studies at Kuwait University. He holds a PhD in Islamic Jurisprudence from the University of Jordan and a Master Degree in Islamic Sharia from Kuwait University. He is a member of several prominent Sharia boards such as Accounting and Auditing Organization for Islamic Financial Institutions "AAOIFI", Bahrain Islamic Bank, Investment Dar, Warba Bank, Boubyan Bank and Ahli United Bank. Dr. Al Enazi is one of the regular speakers in conferences and seminars focusing on both Islamic finance and Islamic jurisprudence. He has published numerous papers handling Islamic banking and finance - related issues.

Sheikh Dr.
Mohammad Oud AlFuzaie
Member of FSSB

Dr. Mohammad Oud AlFuzaie holds a PhD in Comparative Jurisprudence from the Faculty of Sharia and Law at AlAzhar University. He is a member of the teaching staff at the Faculty of Sharia and Islamic Studies at Kuwait University. He is a member of Fatwa and Sharia Supervisory Boards of Zakat House, Boubyan Bank and Warba Bank. He has many studies and researches about Sharia supervision on the activities of Islamic financial institutions.

Sheikh Dr. Ali Ibrahim Al Rashed
Member of FSSB

Dr. Ali Ibrahim Al Rashed Bachelor of Shari'a (College of Shari'a and studies - Kuwait University), Master of Sharia (University of Cairo - Arab Republic of Egypt), PhD in Sharia (University of Cairo - Arab Republic of Egypt), Member of the faculty in the College of Shari`ah – Kuwait University, Member of different Fatwa authorities in many Islamic investment institutions – inside and outside Kuwait , Member of the Shariah Committee in The Ministry of Awkaf – Kuwait, Member of the Shariah Committee in Accounting and Auditing Organization for Islamic Financial Institutions (AIAAOIFI). Member of Fatwa and Shari'a Supervisory Board at Boubyan Bank. Member of Fatwa and Shari'a Supervisory Board of Ahli United Bank. Member of Fatwa and Shari'a Supervisory Board at Warba Bank.

20

FATWA & SHARIA SUPERVISORY BOARD REPORT

REPORT OF FATWA & SHARIA SUPERVISORY BOARD

For the fiscal year ending on 31/12/2020

In the name of Allah, the Most Gracious, the Most Merciful
Praise be to Allah the Lord of the universe, and all blessings and peace on our Master Muhammad, his family, and companions

Valued Warba Shareholders,

Peace, Mercy and Blessings of Allah be upon you

According to the General Assembly's resolution to appoint Fatwa & Sharia Supervisory Board (FSSB) for Warba Bank; a responsibility that has been entrusted to us, we present to you the following report:

At FSSB of Warba Bank, we have examined and reviewed the Bank's principles and contracts relevant to the products offered by the Bank during the fiscal year ending on 31/12/2020. We applied due diligence in conducting our examination and review to express our opinion on whether or not the Bank is in compliance with the provisions and principles of the Islamic Sharia, as well as the Fatwas, resolutions, principles and guidelines issued by FSSB.

We undertook reasonable examination and review that included checking the contracts and procedures used by the Bank, on test basis for each type of transactions. In addition, we have obtained all the information and explanations required to express an opinion on the extent of Bank activities' compliance with the provisions of the Islamic Sharia.

It is noteworthy that the responsibility for executing such provisions, principles and Fatwas and purifying any non-sharia compliant income lies with the Bank's Management, while our responsibility is to express an independent opinion based on the relevant information that has been presented to us which we reviewed.

We believe that the contracts, documents and transactions introduced by the Bank during the fiscal year ending on 31/12/2020, which we have reviewed, have been concluded in compliance with the provisions and principles of the Islamic Sharia.

It is important to note that Warba Bank does not pay Zakat on behalf of shareholders, and the FSSB's responsibility is limited to calculation of the amount of due Zakat per share.

During the fiscal year ending on 31/12/2020, FSSB held 14 meetings attended by all members.

Finally, we supplicate to Allah, the Almighty, to support the Bank's management endeavors in serving our holy religion and beloved country, and to guide and support us all.

Peace, Mercy and blessings of Allah be upon you.

Sheikh Dr. Isam Khalaf Al Enazi
Chairman of FSSB

Sheikh Dr. Ali ibrahim alrashed
Member of FSSB

Sheikh Dr. Mohammad Oud AlFuzaie
Member of FSSB

22

EXECUTIVE MANAGEMENT

Mr. Shaheen Hamad Al Ghanem
Chief Executive Officer "CEO"

Mr. Anwar Bader Al Ghaith
Acting Deputy Chief Executive Officer
Support Services & Treasury "D-CEO"

Mr. Thuwaini Khalid Al Thuwaini
Chief Investment Banking Officer
"CIBO"

Mr. Khaled Hasan Hafez
Chief Financial Officer "CFO"

Mr. Simon Larby Clements
Chief Operations Officer "COO"

Mr. Mohamed Iqbal
Chief Treasury Officer "CTO"

Mr. Haytham Abdulaziz Al Terkait
Chief Technology Officer "CTO"

Mr. Mohamed Atif El Shareef
Chief Strategy & Digital Officer "CSDO"

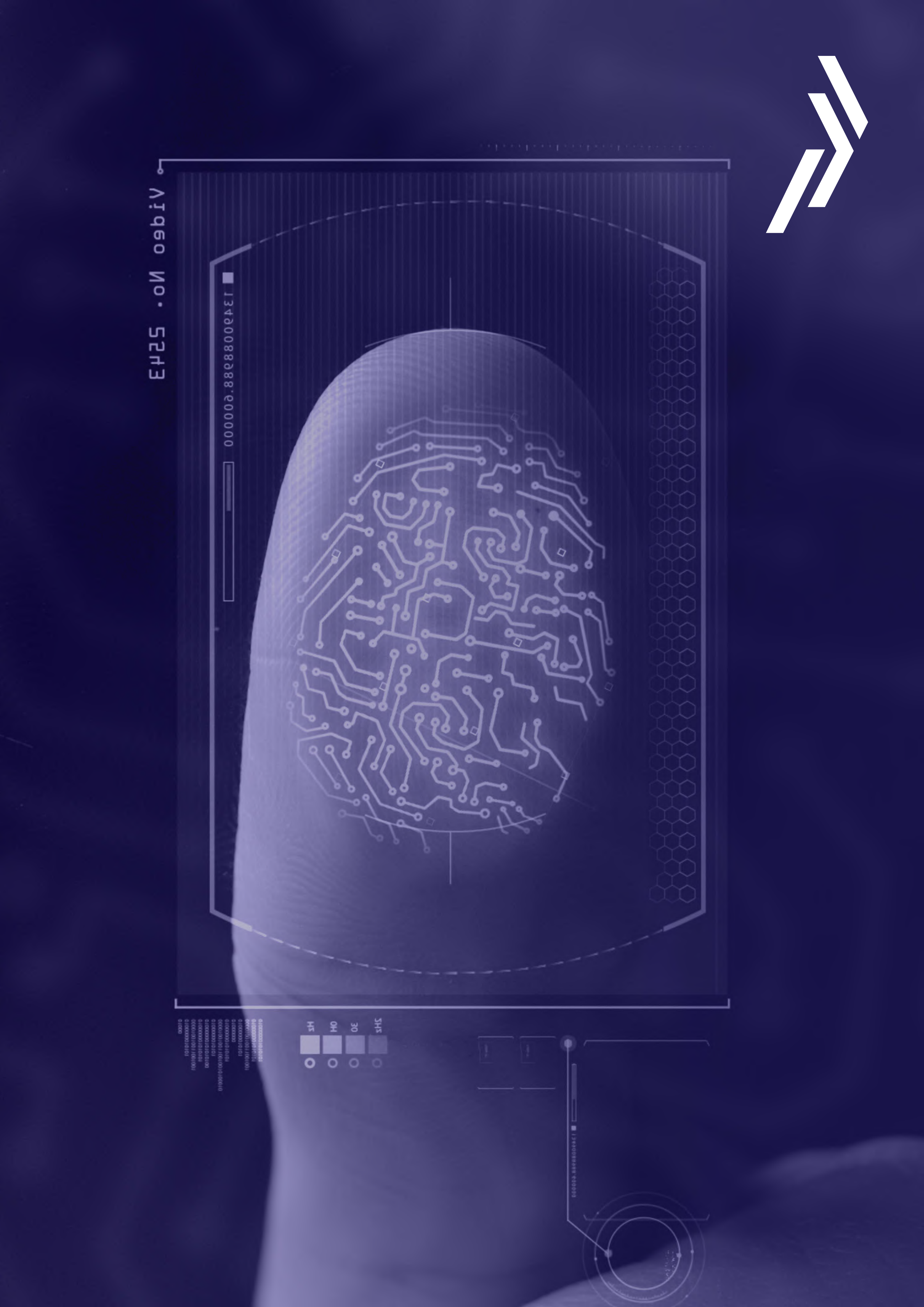
Mr. Amr Mohamed Samy El Kasaby
Chief Internal Auditor "CIA"

Mr. Paul Quigley
Chief Risk Officer "CRO"

Mr. Faisal A. Al Nassar
Acting Chief Corporate Banking Officer "ACCBO"

Mr. Musaed Mazyad Al Mazyad
Acting Chief Retail Banking Officer "ACRBO"

Mr. Abdullah Jassim Hamada
Acting Chief Human Resources & General Services Officer "ACHRGSO"



28

MANAGEMENT DISCUSSION & ANALYSIS REPORT

INTRODUCTION

The challenges of banking risks are comprehensively addressed by Warba Bank via an enterprise wide risk management framework, based on leading best

practices and supported by the board of directors who provide an effective oversight of all risks that impact the bank's activities. Board committees are set up specifically for risk, governance and audit to assist the board of directors in sharing its responsibility. Independent assessment by external rating agencies, Moody's and Fitch, have both recognized the robust risk and controls framework within the bank as a positive factor. The bank is also regularly inspected by the Central Bank of Kuwait.

RISK MANAGEMENT PHILOSOPHY

Warba Bank considers sound risk management to be the foundation of a long-lasting financial institution. The bank adopts a holistic and integrated approach to risk management, proactively assessing risks in order to ensure effective mitigation strategies are employed to the greatest extent possible, enabling the bank to protect the interests of the stakeholders while maximizing its capability to realize its objectives within the risk appetite framework approved by the board of directors. The risk management framework is geared to raise risk awareness throughout the organization.

Risk Framework

The primary purpose of risk management at Warba Bank is to ensure the long-term financial sustainability and operational resilience of the bank by endeavoring to implement international best banking practices while fostering a sound and prudent risk culture across all its business lines.

Warba Bank has established a comprehensive risk management framework to manage all material risks identified under Basel guidelines, including credit, market, operational and information security risks. The risk management function operates within the regulatory framework set out by the Central Bank of Kuwait. Risk policies and processes for each type of risk are integrated into the business decision-making process.

Risk Management Group (RMG), reporting to the Board Risk Committee (BRC), is headed by the Chief Risk Officer (CRO) and operates independent of all business lines to provide oversight on enterprise-wide risk management and internal controls. RMG is viewed as a strategic partner in achieving the appropriate balance between risk and growth objectives.

The board of directors, via the board risk committee, is responsible for the overall risk oversight of the bank. This includes reviewing and approving risk management policies, risk appetite statements and risk exposures and limits, while ensuring the necessary infrastructure and resources are in place.

RMG adopts a proactive approach in managing risks by employing a number of tools and professional talents, to identify, classify, measure and limit risks. This approach helps in analyzing macro-economic environments, early detection of emerging risks and conducting stress tests of associated risks encountered by the bank. RMG optimizes and promotes the risk governance framework with comprehensive policies wherein the roles and responsibilities of all relevant parties are defined, while also promoting a culture of managing risks by providing guidance and balance to business activities, informing the executive management/board committees/board of directors on the bank's position and performance in relation with the approved risk parameters and providing recommendations to fine-tune the risk profile of the bank if the need arises, due to ever-changing business, macro-economic and geo-political factors.

INTERNAL AUDIT GROUP

The objective of the Internal Audit Group (IAG) is to provide independent, objective assurance and consulting services designed to add value and improve bank operations. It helps the bank accomplish its objectives by bringing a systematic, disciplined risk-based approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Different types of Audit Reports are issued, summarizing the results from each performed audit engagement, which are then communicated to the responsible heads of the auditable groups, divisions and departments. These reports provide evidences to support the annual evaluation of the overall operating effectiveness of the internal control environment. However, any internal control system can only provide reasonable, but not absolute assurance that the objectives of that control system are met. Further, the design of a control system must reflect the fact that there are resources' constraints, and that the benefits of controls must be considered relative to their costs.

The Internal Audit Group adheres to the standards and guidelines of the Institute of Internal Auditors (IIA), the Information Systems Audit and Control Association (ISACA), and the Association of Certified Fraud Examiners (ACFE), also ensuring the practices are aligned with the global best practices of the Internal Audit.

RETAIL BANKING GROUP

Despite the impact of COVID -19 on the global economy, 2020 was another year of strong growth for the group. Retail Banking Group has continued its success by increasing its deposits portfolio by over 40%, maintained a very low NPL ratio due to sound credit decision making & strong collection mechanism and also increased POS business volume by 20%.

The group expanded its branch network by officially inaugurating the Kifan Branch at the beginning of the year. In addition, branch relocations took place - mainly moving the head office to Al Raya Complex with the addition of a dedicated section for Private Banking customers. Also, Egila, and Jahra branches were relocated to vital locations for better customer serving. Furthermore, the bank will open five more branches next year all in residential areas as per the group's strategic plan aiming to increase the bank's presence in individual customers locations. Moreover, for keeping our customers and employees safe against the COVID-19 pandemic, the group has launched a branch appointment system to reduce traffic and waiting times in the branches for better service.

A key pillar of the bank's vision is to be an Islamic banking champion with a lean, digitally enabled retail business & thus, the enhancements & improvements in this regard have been non-stop. The bank has introduced numerous enhancements & new services on its mobile application and main platforms, introducing first of their kind services and solutions. With the launch of "Pocket", the digital loyalty program, along with partnerships with various key entities, our customers can enjoy a wide range of benefits & services. In light of expanding the bank presence & its channels to serve our customers, the bank increased the number of ATMs reaching over 80 ATMs allocated to branches & offsite locations, 19 and 68, respectively. Also, the bank has three full-function Express Bank Machines (EBMs), allowing customers to open new accounts, issue debit cards and a wide array of branch transactions 24/7. Further, the bank has launched cash deposit machine for non-individuals and multi-currency ATM.

The group has completely revamped its youth segment, now called "BLOOM", which provides endless features such as a dedicated application for them, a unique design for the bank card, profit opportunities, various discounts and many other features, to increase youth accounts portfolio as per the group's strategic plan aiming to increase the youth customer's segment. Yet another product was launched; the Platinum MasterCard, to meet the customers needs. It is a Sharia-compliant credit card, available in both charge and revolving variants.

One of the areas the group has a particular focus on its customer experience and sales management, where they work hand in hand to develop the customer journey in terms of service and products to achieve an extraordinary journey for customers and compete with the local market peers in providing the state of the art services. The bank strives to continue its exceptional customer service by measuring and monitoring all customer touch points. In addition, the group has introduced several RPA (Robotic Process Automation) to increase work efficiency.

Private Banking Services ''Al-Masi''

The "Al-Massi" segment was launched during 2019 as a special segment to provide high-net-worth clients private banking services. During the year 2020, we expanded our presence by opening a new site dedicated to private banking customers, located in Al-Raya Tower. In addition, the deposit portfolio increased by nearly 50% while the number of clients increased by 30%, despite the circumstance of the COVID-19 pandemic. As part of the private banking plan for 2021, an additional dedicated site will be added to the segment as well as new relationship managers with high experience in the banking sector to continue serving our customers, ensuring the same level of proficiency and excellent customer satisfaction, in addition to new digital offerings designed to meet their needs and serve them in a manner befitting the ambitions of this segment.

CORPORATE BANKING GROUP

Based on the role of the Corporate Banking Group in providing its financing services to Warba Bank's commercial customers, companies, institutions or individuals, the year 2020 witnessed an expansion in major sectors of the local market.

The expansion process also included development in terms of quantity and quality coinciding with the growth in the size of the financing portfolio, as the Corporate Banking Group succeeded in expanding it's financing portfolio while maintaining reassuring risk levels, which had a clear positive impact in increasing the overallrevenues of the group.During the year 2020, the Corporate Banking Group emphasized portfolio of diversification by increasing the focus on other economic sectors that add value to the local economy, such as the real estates contracting and retail sectors.

Despite the health precautions and business closures due to the COVID-19 pandemic, as well as the novelty of Warba Bank (considered the most recent Kuwaiti bank to enter the Kuwaiti market) and the relative disparity in size compared to competing banks, the Corporate Banking Group at Warba Bank was able to enter as a strong competitor by the benefit of excellence in service, dealing with high professionalism, through a team of national cadres with experience and outstanding performance. While the Corporate Banking Group has succeeded in continuing to achieve the difficult equation by achieving targeted expansion while maintaining the highest standards of quality of the financing portfolio and reducing risks, it has succeeded in achieving a growth in the size of its financing portfolio by 15% during the year 2020 in addition to the increase of new customers.

In terms of products and services, a number of services have been developed, the most important of which is the website dedicated to corporate online banking, which has become a competition to provide the largest number of online banking services at the level of local banks, the corporate online banking website will witness further development during the year 2021 by adding more services and solutions easily and quickly to our valued customers. The year 2020 also witnessed the development and expansion of financing operations for residential real estate as well as industrial plots.

The corporate banking group has multiple expansion opportunities to engage and the group continues to evaluate these opportunities according to thoughtful and balanced strategies to be applied during the short term, as the group has prepared the infrastructure to launch the implement of these goals in a timely manner.

INVESTMENT BANKING GROUP

The Investment Banking Group ("IBG"), demonstrated resilient performance during 2020 with the outbreak of the novel coronavirus pandemic COVID-19, as volatile markets and the pandemic imposed restrictions affecting business' globally. IBG prudently navigated the financial waters and focused on quality credit and investment transactions in the midst of economic turbulence.

International Banking Division

The International Banking Division ("IBD") has been established to tend to the debt capital market as well as the structured and cross-border financing business for the bank by developing and maintaining local and international Financial Institution relationships, as well as ensuring the overall efficiency, synergy and alignment of business lines under IBD. The Structured and Syndicated Finance Department ("SSF"), Debt Capital Markets Department ("DCM") and The Financial Institutions Department ("FID") have all been restructured as part of IBD. 2020 was a year of wariness due to COVID-19, faced with challenges and obstacles that were inconceivable for the era we live in. By the good grace of Allah, IBD nevertheless managed to successfully conduct various quality transactions despite challenging market conditions.

DCM possesses significant experience in the origination, structuring, pricing and distribution of Islamic debt capital market (sukuk) securities. The department was relatively active during 2020 with three appointments as a Joint Lead Manager and Bookrunner on primary sukuk issuances: USD 700 million for Boubyan Bank, USD 400 million for Dar Al-Arkan Real Estate Development Company and USD 600 million for Islamic Corporation for the Development of the Private Sector (ICD).

SSF specialises in a wide array of corporate financing segments including aviation, projects, structured, syndicated and M&A financing. In the structured and syndicated finance market, Warba Bank seized opportunities to be appointed as Mandated Lead Arranger ("MLA") on various transactions which include notable facilities such as: MLA and Istisna Ijara Facility Agent on a USD 275 million senior financing facility for a 500MW Ibri-2 solar PV project in Oman, MLA on a USD 500 million senior financing facility for Q-Terminals a joint venture between Qatar Ports Management Company (Mwani) and Qatar Navigation (Milaha) to manage the first phase of Hamad Port in Qatar and MLA and Istisna-Ijara Agent on the USD 541 million senior secured financing facility for DEWA V Solar IPP Project.
In addition to the aforementioned transactions, SSF was successful in participating in various other cross-border financing and investment opportunities with existing and newly established relationships. Lastly, SSF's successful negotiation and partial exit from a structured finance aviation assets (Shaheen Sukuk) which resulted in a realized gain of USD 6 million was one of the remarkable achievements during the challenging year.

FID is a dedicated function within IBD to support the bank's institutional brand awareness and standing in the local and international banking industry. In the first quarter of 2020, macroeconomic factors regained attention, with concerns related to the spread of COVID-19 negatively impacting the local and international financial markets. The preventive health measures and lockdown of the public and private sectors affected the credit risk appetite of financial institutions locally, regionally, and globally. The impact to markets was severe with unprecedented capital outflows, tightening financing conditions and pressure on currencies. Under this unanticipated economic and business environment, FID focused on monitoring the local and international markets and had an opportunistic approach to increase the business lines with its correspondent banking network. Throughout the year, FID increased its correspondent banking network on a reciprocal basis in targeted regions and countries. In 2020, FID established 15 new correspondent banks in its network from 11 different countries. FID increased the business volumes on both cash and non-cash business lines from its expanded correspondent banking network across different countries. Moreover, FID supported the growth of the bank's various business lines and helped the bank achieve adequate diversification in its revenue composition, particularly in the offering of the bank's treasury solutions and new Sharia-complaint trade finance products and structures.

Real Estate Investment Department

Despite the severe impact of COVID-19, 2020 is another successful year for the Real Estate Investment Department ("REID"). REID demonstrated a firm commitment to growing its global real estate investments in accordance with IBG's asset allocation strategy. The bank's overall real estate investments grew by 13.1% year-on-year from KWD 122 million at the end of 2019 to c. KWD 138 million at the end of 2020. One Class A brand new multi-family real estate property was added to the existing portfolio in Q1 2020 located in North Carolina USA with an equity investment of $27.4 million in addition to the investments in two on-going multi-family development properties and two existing high-end multi-family value-add properties in USA. REID also invested c. US$15.5 million in its four committed globally diversified private real estate funds.

In 2020, the bank also successfully sold Warba Tower in Kuwait generating a capital gain of over KD 2.8 million. As of the end of 2020 the bank owns one fully owned property and 16 international real estate properties under joint venture structures which are geographically diversified across numerous states and high growth cities namely, Atlanta, Phoenix, Denver, North Carolina, Pittsburgh, Dallas, Philadelphia and Wisconsin in USA, Greater London in UK and Dublin and Cork in Ireland. The assets are strategically located in core and core plus submarkets, high growth business parks and high growth suburban markets, all of which are supported by robust economic and demographic fundamentals.

Direct Investment Department

The Direct Investment Department ("DID") manages the bank's strategic and proprietary investments across multiple asset classes. The department follows the Strategic Asset Allocation ("SAA") set for IBG in allocating capital across multiple asset classes based on long term expected return and volatility for each asset class. A risk budget for the portfolio is monitored periodically based on the bank's goals and tolerance for risk and volatility. Based on the SAA, the IBG frames an allocation strategy that diversifies across asset classes and geographies while continuously monitoring the total Value at Risk ("VaR"). This allows for a more methodical investment process from an asset-liability management perspective and enables more efficient harvesting of risk premia.

Throughout the year, we have made around USD 250 million in several new commitments to investment funds and separately managed accounts. These commitments are broken down in several asset classes including c. USD 114 million to infrastructure funds, USD 106 million to private equity funds, USD 20 million to public equities and USD 10 million to a growth equity fund. As a result of the above commitments as well as previous years commitments, we have deployed around USD 115 million in capital to new and existing investments during 2020. Our investments have been resilient throughout the pandemic, with mark-ups in valuation and payments of distributions by the cash generating asset classes (leasing and infrastructure). The infrastructure asset class is primarily a global core/core+ focused with contractual revenues at the asset level and an average distribution rate of +5% p.a. The private equity asset class is diversified across multiple strategies including primaries, secondaries, co-investments, fund of funds, and growth equity. The listed equity asset class is a globally diversified growth focused, investing primarily in developed markets.

Portfolios & Funds Management Department

As for the Portfolios & Funds Management Department ("PFMD"), taking into consideration the health and safety of its staff and clients during this pandemic, Warba Bank decided to postpone the launch of the Warba Investment Management platform to 2021. During the current year, PFMD ran a branding exercise to develop a distinct brand identity for the Warba Investment Management platform, while retaining core elements that are part of Warba's DNA. Additionally, PFMD collaborated with SS&C Technologies to set up and integrate their comprehensive Geneva software for Portfolio and Fund Management. This package solution would form the IT and accounting backbone for Warba Investment Management. Several projects are in progress and a robust pipeline of products has been developed for eventual roll out in 2021. The current economic environment presents several interesting opportunities which, would be attractive to Warba Bank's private banking and institutional clients.

TREASURY GROUP

For the financial year 2020, Treasury Group continued its growth in alignment with the bank's strategic plans despite the COVID-19 pandemic that hit the market worldwide. At a macro level, there has been a sharp decline in the market prices and a compression of margins as investors rushed to lock in yields as oil prices declined due to the market conditions. The Central Bank of Kuwait, though, was more prudent in its approach and ensured continued stability in the domestic financial system by keeping market rates at levels attractive to depositors as CBK ratios were relaxed to cater for the continued government expenditure and the pressure on banks to retain deposits. During the year, the USD traded in a narrower range against the KWD as compared to the previous year, nearing a high level of KWD 0.30995 per dollar.

Treasury's achievement of the year highlight was the successful implementation of a business continuity plan to ensure uninterrupted operations during a very challenging period of COVID-19 pandemic. Another successful launch of a KWD 150 million 5 year unsecured sukuk issuance was launched.

Faster cost of funding declined versus yield on assets as this improved our spread. FX income increased due to large volumes being transacted by corporates as well as exchange houses.
Treasury dealing activities continued to grow on all fronts in deposits Foreign Exchange volume. Cost of funds was managed in a dynamic manner to ensure it remained contained within the budgeted expectations thus improving the depositor concentration ratio while abiding by the CBK regulatory framework.

During the year, Treasury also successfully secured bilateral financing facilities jointly with IBG – Investment Banking to lock in stable long-term funding. There were also ongoing initiatives with Financial Institution department to enlarge the bank's counterparty base to reach a number of new partners to facilitate reciprocal dealing relationships and enhance liquidity and the price discovery process.
Treasury personnel attended online training courses to build their capabilities, introduced by the bank. Training, development and hiring will continue to be a key area of focus in the upcoming years as we look forward to many more successful results for the Bank and the Treasury Group.

INFORMATION TECHNOLOGY GROUP

Warba Bank has established solid grounds during the past few years. Our deep perception of the accelerating technological advancements and their reflections onto the banking industry have directed us to passionately and positively move towards establishing a comprehensive and secure digital business model, driven by innovation and technology.

During 2020, despite the unusual circumstances and challenges faced due to COVID-19 pandemic, the bank was able to drive further efficiencies and deliver quality customer experience. ITG played a crucial role in providing the exceptional support that was required for the bank to continue its business while implementing governmental safety protocols and procedures. With full commitment, ITG fostered creative and innovative use of communication infrastructures and security protocols to provide sufficient equipment and support required for the bank staff to work from home that resulted in an uninterrupted delivery of banking services to the customers.

In light of the dynamic changes, where technology/digitalization replaces the usual/traditional way of conducting business, the Information Technology Group continued to explore and embrace the latest technology to provide convenient solutions for the clients and to fulfill their needs, including:

- Provisioning of an in-house Business Gate platform that transformed retail and corporate customer transaction experience.
- Deployment of an in-house Merchant Management System maximizing the operational efficiency of the merchants.
- Revamping Corporate Online Banking system and enhancing the Internet Banking platforms, delighting our customers with new, advanced and easy to use products and services.
- Automating the reporting and workflows for retail and corporate portfolios that resulted in improved decision making which strengthen our competitive advantage and enrich our predictive capabilities to fulfill our customers' current and future needs.
- Expansion of the robust underlying technology and communication infrastructure to maintain high availability and redundancy to meet ever-changing business requirements.
- Delivery of the secure and reliable remote access capabilities to serve and manage the required work from home demands.
- Continuous improvement of the Information Technology Cyber Security framework that kept on growing in scale and sophistication, keeping pace with the new technologies that are being introduced and the risks associated with it.
- Implementation of leading advanced solutions, PCI and ISO standards to protect the privacy, security and integrity of bank's data and systems to ensure responsible practices and resilient technology.
- Commitment to regulatory compliance through effective and satisfactory auditing and reviews of critical system controls.

The IT Group's strategy and planning is not limited to the near future only. As the bank endeavors to redesign its products and services, ITG will remain at the forefront, providing various tools and required expertise to adapt with the advanced technological developments. This approach shall contribute to the amendment of traditional methods in banking business and support Warba Bank to develop a leadership position.

OPERATIONS GROUP

As with all groups, operations had to adjust to the new normal during 2020. This essentially required the team to adapt to a new model of remote working for most of the first six months of the year in particular. We then continued to deploy a mixture of office working and remote working to minimize the potential risk of disruptions in the event of any COVID-19 infections. This approach ensured that in spite of lockdowns and curfews, the activities of the group have continued uninterrupted throughout the year.

The move to a hybrid working model was facilitated by the group's recent activities with the technology team in consistently streamlining and digitizing processes. The use of Robotic Process Automation has enhanced and streamlined most of our core processes, minimizing human intervention, delivering consistent quality and creating a non-volume sensitive environment. Thus, we are delivering for today but just as importantly building for the future. This has been further supported through the integration of front-end systems with our core banking application.
We have continued our internal training programs to enhance the staff skill sets, banking knowledge and operational awareness. In addition, we have developed a series of awareness sessions for staff from other groups across the bank which have been well received.

The group will continue to leverage automation to enhance processes, control costs and deliver sustainable levels of quality in the years ahead.

This was achieved successfully with no interruption to the services we provide to the business areas of the bank in the past stage. In fact, remote working has enabled us to provide an increased level of service as well as accelerating the streamlining/automating of our processes.

The enhancing of our processes and the application of Robotic Process Automation techniques has reduced the potential for error and created an environment that is not volume sensitive. Indeed, we are building capacity to absorb the future growth and demands of the business without the need for a significant increase in resources.

REGULATORY DIVISION

The regulatory division assists the bank in achieving its objectives in accordance with the applicable regulations and instructions in the state of Kuwait, in order to protect the bank from any violations or financial/non-financial penalties. This is clearly demonstrated in our slogan "Compliance for Growth Protection." The regulatory division is considered the second line of defence, monitoring compliance against laws, regulatory instructions and corporate governance rules and systems. 2020 witnessed multiple accomplishments for the regulatory division in terms of enhancing the level of compliance with the supervisory regulations and applicable laws across the bank, and updating the policies and procedures that ensure boosting staff compliance while supporting their implementation. The division has also raised the level of staff compliance across the bank through conducting awareness programs related to regulatory authority requirements that cover all the bank's activities during 2020.

HUMAN RESOURCES AND GENERAL SERVICES GROUP

One of Warba Bank's key pillars is its commitment to invest in people. Since its inception, the bank has spared no effort to focus on attracting and developing its talents. This was put to the test during the COVID-19 outbreak, by providing continuous safeguarding to our staff to ensure a safe work environment and implementing precautionary measures to mitigate the risk associated with the pandemic as well as effectively contribute in supporting the efforts of business continuity. This joint effort was achieved by applying world class work protocols and new working procedures to allow our employees to work remotely and safely. The Human Resources & General Services Group was active during the pandemic, preparing an additional disaster recovery site as part of the strategy of the business continuity plan, which included providing the necessary supplies and logistics services.

In addition, we continued providing training courses on various topics via our Warba Learning Gate (WLG), while maintaining a focus on mandatory regulatory training to equip our employees with the needed knowledge and skills to perform their basic duties. This training included cyber security, anti-money laundering/combating financial terrorism, culture awareness and back to work protocols, helping to manage the repercussions of the COVID-19 pandemic.
As a part of the culture of prosperity that Warba Bank is immensely proud of, we continued to measure our organizational health by launching our annual Organizational Health Index (OHI), where we used the results to draw a roadmap of continuous improvements and initiatives to increase productivity and enhance the work environment. One of the major outcomes of this was the decision to move to Arraya tower, placing all departments in one location and positively received by stakeholders and employees. Additionally, this created a sense of familiarity and belonging among employees and enhanced the synergy between them.

Warba Bank did not experience interruption in terms of providing job opportunities for national cadres and talents, a key part of growth and strategic plans. This resulted in improving Kuwaitization which reached 75% across the bank.

The human resources and general services group concluded the year by showing appreciation to the employees who worked during the curfew periods with dedication and endless efforts by awarding them the "Warba Heros" appreciation letter, presented and awarded by the CEO, acting deputy CEO support services and treasury, and group chiefs.

THE ANTI-MONEY LAUNDERING, COMBATING TERRORIST FINANCING AND TAX COMPLIANCE DEPARTMENT

The Anti-Money Laundering (AML), Combating Terrorist Financing (CFT) and Tax Compliance Department is coordinating with all business groups in Warba Bank with the instructions of Senior Management to implement the relevant guidelines, rules and instructions issued by the Central Bank of Kuwait in the field of AML / CFT in Kuwait, along with applying the relevant international standards, i.e., recommendations of Financial Action Task Force (FATF) and Basel Committee Banking Supervision.

The bank implemented the AML & CFT policies, procedures and internal controls that keep a level on the ongoing local, regional and international stages of development to maintain resilient AML/CFT systems and practices within Warba Bank. The risk-based approach that the banking operations undertook at Warba Bank includes de-risking measures which, with the improvement of the monitoring systems and the development in the internal control systems, have enabled the bank to ensure effective and adequate AML & CFT measures are taken before processing the transactions. Moreover, as per the Risk Assessment Policy, the bank takes all necessary measures to investigate suspicious and high-risk transactions that would require intensive attention. The bank ensures to match the transactions relating to parties against the Kuwait local sanction and international sanctioned lists of AML & CFT before processing these transactions to prevent providing any banking services or product to sanctioned blacklisted names on the sanctioned lists.

Warba Bank has been continuously developing automated systems to tighten control over anti-money laundering and terrorist financing to strengthen the internal control system. The bank lunched the new AML&CFT system Siron during this year to cover CBK AML&CFT requirements on monitoring the customer's transaction based on risk based evaluation and to determine the required due diligence levels, enabling AML&CFT department to detect and report suspicious transactions and reduce the risks of these transactions, assessing risks and applying the principle of due diligence based on transactions risks rating levels. The new system will help AML&CFT and the tax compliance department to identify and report suspicious transactions.

Warba Bank organizes quarterly awareness AML&CFT training and awareness sessions for their new and existing staff and top management with coordination of Human Resources and general services Group at Warba Bank. These training sessions help them identify the risks of money laundering and financing terrorism, along with awareness on the CBK AML & CFT Instructions and regulations and related laws and legislatures. These training sessions are conducted through an E-learning system, presented by a specialized external organization, in addition to an organized AML&CFT training session to WB board of directors presented by a specialized training firm in AML&CFT. It's important to mention that the attendance of these trainings for all staff members of the bank is compulsory.

Annually, an independent audit is carried out by the internal audit department of Warba Bank to review the bank›s compliance with the instructions of the Central Bank of Kuwait. Furthermore, an international audit firm analyses AML&CFT internal control systems within Warba Bank.

Warba Bank is complying with the term of requirements of the USA Federal Tax Compliance Act (FATCA) and the related ministerial decisions. These include modifying the account opening forms, "Know Your Customer" and self-certificate forms and other related onboarding policies and procedures in place. A certified audit firm acts as a consultant to verify the execution of the requirements of the laws and review the FATCA report to check the bank's compliance and validity of the report. Warba Bank has submitted the FATCA report through the Ministry of Finance Portal successfully within the deadline set by Ministry of Finance.

Warba Bank has also complied with implementing the Common Reporting Standards (CRS), signed by the State of Kuwait on 9th August 2016, where ministerial decisions were issued in this regard. As a result, the bank has made the required amendments to its relevant procedures, policies and self-certificate forms to generate the final annual reports required to be submitted to authorities. A certified external audit firm has been hired to assess the bank›s readiness and to identify any from the requirements of the Common Reporting Standards (CRS). Warba Bank was ready to submit the CRS report by the scheduled date set by authorities, Warba Bank has submitted the CRS report through Ministry of Finance Portal successfully within the deadline.

2021 FUTURE OUTLOOK

Global Economy

Covid-19, the once-in-a-century pandemic outbreak, took the world by storm in 2020, triggering the deepest and fastest recession to the global economy since World War 2. Government-imposed lockdowns caused global activity to fall by 20%, capital markets witnessed the fastest bear market with S&P 500 falling by 20% and commodities markets saw the first ever negative settlement for oil at -$37/bbl.

According to Goldman Sachs, in terms of real GDP, the estimated global contraction is expected to reach 3.7% in 2020 and as the difficult ascent begins, global growth is projected to reach 6.3% in 2021. Advanced economies are expected to contract by 5.8% in 2020 and growth is projected to be at 3.7% in 2021. Against all odds, the second biggest economy, China, rebounded with an expected growth of 2.4% in 2020 and a strong projection of 8.0% in 2021, making it the only major economy to have come out strong from the impact of Covid-19.

According to IMF, global trade is expected to contract by 10.4% in 2020. However, 2021 is expected to mark the beginning of a new chapter in international relations and global trade with growth projected at 8.3%, supported by Covid-19 vaccines and improving international business conditions with a new US administration. This will have a net positive impact for economies such as Asia & parts of Europe too.

GCC Economy

The disruption due to Covid-19, joint with a sharp decline in international oil prices, compounded the adverse economic impact and fiscal revenues in the GCC region. Based on IMF, the average real GDP for GCC countries is estimated to contract by 6.6% in 2020 and growth is projected to reach 1.6% in 2021 with Oman having the steepest declines of all. Weak global energy demand maintains a pressure on the oil sector, causing the oil GDP to plummet in 2020 by 6.2%, while in 2021 it is estimated to recover with a growth of 1.2%, mostly due to countries adherence to OPEC+ production cutbacks.

Uncertainty remains, despite positive vaccine news causing the non-oil GDP a contraction in 2020 by 5.7%, while the corresponding 2021 is estimated to grow by 2.9%. Radical structural reforms are required to enhance business environments and foster human capital for the private sector in the region and boost economic diversification away from oil.

Kuwait Economy

The domino effect from the twin shocks of Covid-19 and the oil price slump caused the real GDP in Kuwait to contract by 8.1% in 2020 and is projected to grow by 0.6% in 2021 as reported by World Bank. Kuwait's economy is directly dependent on hydrocarbons and this year, the pressure mounted from fiscal deficits as oil revenues declined by 16.6% in addition to spending on mitigation of Covid-19 induced crisis. The scarring due to the medium-term oil outlook is likely to raise future funding needs and the absence of a debt law at times when borrowing is cost effective, further amplifying the burden on fiscal buffers.

Oil GDP plummeted in 2020 by 8.9% and in 2021 is projected to ascend to a contraction of 1.3% owing to the county's commitment to implement oil production cuts based on OPEC+ agreement in Q2-2020. Non-oil revenues fell too due to weak economic activity and non-oil GDP in 2020 had a recession of 7.0%. In 2021, it is expected to have sluggish growth of 3.0%.

On the plus side, the consumer prices in Kuwait have slightly increased by 1.4% y-o-y in 2020 and in 2021 are expected to increase by 2.5% y-o-y, which remains relatively low compared to the region.

Kuwait Banking Sector

The Covid-19 crisis, along with a plunge in oil prices, is expected to hit hard on Kuwait's banking sector in 2020 and 2021. According to IMF, the current account balance as percentage of GDP is expected to shrink by 6.8% in 2020 and by 2.8% in 2021.
During 2020, financing growth is expected to fall to 4.0% y-o-y and total financing amount is expected to reach KD 59 billion whereas deposit growth is expected to fall to 5.0% y-o-y and total deposits amount is expected to reach KD 84 billion.

The Central Bank of Kuwait announced a KD 10 million stimulus package and multiple relief measures with the focus to provide interest relief on loans to SME's, individuals and companies. A huge slash on discount rate from 2.75% down to 1.5% has been implemented to curb the implication on the banking sector. Any potential asset quality deterioration has been masked by the postponement of financing payments however, on the bright side, Kuwaiti banks have the highest loan loss allowances of all GCC countries.

Warba Bank

Covid-19 had a pounding effect on the banking sector in 2020. Despite the challenges, Warba Bank managed the situation efficiently and effectively through implementation of sound measures to ward off the negative implications of Covid-19 and macro-economic factors. To strengthen the governance and risk management of the bank, Warba developed and implemented a special stress testing capability in addition to recalibrating and validating the Credit Grading System for adherence with the CBK mandated provision estimation. Multiple initiatives were also undertaken to boost the resilience and sustainability including Business Continuity / DR Testing, factoring in the conditions and circumstances created by the pandemic.

2020 marked the first decade of operations for Warba Bank. Warba received 2 prestigious awards during 2020 including the 'Fastest Growing Bank' for the 6th consecutive year. Warba's credit ratings were also re-affirmed by Fitch Ratings at "A+" and Moody's at "Baa2" with a stable outlook from both agencies.

Warba accomplished multiple strategic initiatives to strengthen its position in the banking industry. In terms of major transactions, Warba issued a KWD 150 million listed senior unsecured sukuk, marking it as the first Kuwaiti Dinar sukuk by any Kuwaiti financial institution. In terms of expansion, Warba moved the entire bank to the new headquarters at Al Raya and opened 3 new branches during the year. Warba formulated and launched several strategic partnerships including a bank-telecom partnership with Ooredoo Kuwait which will enable offering of innovative products and services new to the banking industry in Kuwait. In terms of segment development, Warba launched "Bloom", a revamp of the bank's existing youth segment "Shabab" with the first dedicated youth banking app in the region.

On the digital front, Warba completed Electronic Payments Infrastructure Provider registration with CBK in line with the new regulations for digital payments. Warba launched 10+ digital services for retail customers including digital onboarding, super transfer for remittances, and inclusion of several reward partners in Warba Pocket like Kuwait Airways and Entertainer. Warba also launched 5 new digital services for corporate clients through the corporate online portal.

During 2020, Warba bank refreshed its corporate strategy to craft a new 5 years strategy. With a new vision, Warba aspires to become the leading digital-first Islamic corporate and retail bank in Kuwait. Warba's mission is to provide innovative financial solutions and an outstanding digital experiences to help its customers fulfill their life ambitions, provide its staff with a rewarding work environment, nurture high-quality talent and deliver sustainable profitability for its shareholders.

2021 will bring a range of challenges due to the ongoing Covid-19 pandemic and macro-economic and banking industry outlook. Warba Bank's new strategy has been crafted in cognizance of these challenges and will support in smooth sailing through any obstructive headwinds. Warba Bank envisions to further strengthen its position in the market as it embarks on its new journey which will be underpinned by profitable growth and expansion, operational excellence, positive organizational culture, service differentiation and innovation. With digital at its core, Warba is well prepared for the anticipated shift in consumer behavior and their preferences towards digital channels. With an increasing need for innovative digital financial services, Warba is well positioned to capitalize on key opportunities with its state-of-the-art digital factory, network of strategic partnerships, customers-centric approach and diligent compliance with regulations and industry best-practice standards.
External Sources: Arzan, Central Bank of Kuwait, Fitch Ratings, Goldman Sachs, IMF, Moody's, World Bank, World Health Organization, Markaz

SOCIAL RESPONSIBILITY

During 2020, Warba Bank continued to enhance its social programs, considering them an integral part of the Bank's efforts towards promoting citizenship and sustainable development, despite the exceptional circumstances and the repercussions of the coronavirus pandemic witnessed in 2020.

Warba Bank has succeeded in achieving remarkable results due to its efforts towards addressing the pandemic and has maintained its achievements in the field of sustainability through its several contributions and initiatives covering various social aspects.
Social responsibility activities and sustainability programs have become especially important for the Bank in recent years. Despite the circumstances that Kuwait, and the world at large, have experienced due to the outbreak of coronavirus, the Bank has managed to enhance its leading role in social responsibility and provide sponsorship and participation in various fields of humanitarian, social, charitable and health care activities.

The Bank, along with consolidated efforts of all sectors and departments, has professionally handled the pandemic . First of all, Employees are informed about the mandatory health requirements to be adhered with across the Bank's buildings and branches. In addition guidance posters are placed, sterilizers are distributed and the Bank ensures the safety of the employees working in the front rows. And finally the Bank ensures that everyone is following all health precautionary instructions and social distancing to ensure the safety of both employees and customers.

Social responsibility is a key pillar through which Warba Bank contributes in serving the country for maintaining the sustainability of its material and human resources. Despite the extraordinary circumstances that the country has faced due to the outbreak of coronavirus, Warba Bank has succeeded in dealing with the implications resulting from the pandemic during 2020. The Bank remained committed to its social responsibility programs, which included various social activities strategically set in favor of the community, which actually confirms the Bank's well-established commitment to societal values.

Social Sustainability

Response to the challenges of the novel coronavirus at the time when national efforts to curb the spread of the health concerns came into effect, Warba Bank had been ready to play its role at the beginning of the pandemic. Warba Bank rapidly contributed to the Ten Million -Dinar Fund, initiated by the Central Bank of Kuwait, to enable local banks to support the national efforts in combating the spread of COVID-19.

During the first stages of returning to normal life, Warba Bank was keen to implement all necessary precautionary measures to ensure regular sterilization at all branches. These measures included taking customer temperature before entering and maintaining physical distancing, in addition to the mandatory requirements of wearing gloves and masks for both customers and employees. Warba Bank is committed to applying the best preventive health measures to ensure the safety of both customers and employees.

Launching the Annual Breast Cancer Awareness Campaign

Warba Bank works tirelessly every year to promote breast cancer awareness to educate females on the benefits of early detection and treatment of cancer. Warba Bank launched its annual awareness campaign on the dangers of breast cancer in October 2020, to coincide with the official annual Breast Cancer Awareness Month, to educate the community about the importance of the early detection and to encourage regular examination.

Special Services for the Deaf and Voice Muted

In the first quarter of 2020, Warba Bank provided special banking services to its deaf customers in collaboration with Syncom (the first visual application in the world, providing banking services for the deaf), offering smooth and simple banking services such as account opening, issuing credit cards and more in an atmosphere of confidentiality and privacy.

Constant Communication through Social Media Channels

The Corporate Communication Division has activated more means of communication with customers and the public via social networking sites (Instagram, Facebook, Twitter, Snapchat, LinkedIn and YouTube) during the coronavirus outbreak. The Bank also broadcast many awareness messages about fighting the Coronavirus and showed ways that Warba Bank emphasizes social work as a reputable financial institution, keen to establish successful partnership relations with various sectors based on serving the nation and the citizens.

INSTITUTIONAL CAPABILITIES

The year 2020 was an exceptional year globally and locally, where coronavirus COVID-19 repercussions required companies to arm with their human resources to face & overcome this crisis. Our bank has witnessed many noticeable efforts from various groups to keep and guarantee a healthy, safe work environment for its employees. Our bank also witnessed many precautionary measures to face this crisis and limit the spread of infection within the bank, which effectively contributed towards ensuring the flow and continuity of the business, applying strict preventive and health protocols in addition to using new working methods and encouragement of working remotely. Since the beginning of the crisis, our bank has formed a team consisting of the main departments to manage the repercussions of the situation in a systematic and professional manner, based on the decisions of the state in general and the decisions of the relevant authorities, as required by the interest of the work.
As a continuation of the efforts of the past year regarding the launch of Warba Learning Gate (WLG), and to emphasize & confirm our bank's interest in developing and qualifying employees regardless of the circumstances, all mandatory training for the regulatory authorities has been transferred to WLG online courses, including information technology security and anti-money laundering/combating financing terrorism, in addition to many other courses that have contributed in promoting awareness and spreading banking culture, such as operational risk & fraud awareness, employee handbook & general principles and sharia awareness. Our bank has also assigned a special training program for employees under the name of "return to work protocol", to provide employees with all information and procedures to face the repercussions of coronavirus.

Our bank has continued to provide job opportunities for national cadres without interruption throughout the year 2020 in order to complete the implementation and achievements of its annual goals with the belief that all strategic plan objectives will be achieved without being affected, resulted in increasing the rate of Kuwaitization to reach 75% at the bank's level.
Since the human capital is one of the most important pillars of our bank, we have continued to pay attention this year to measure the Organizational Health Index (OHI) for the third year in a row, through which the organizational elements are identified and compared with the results of last year in order to develop an applied roadmap that helps to increase and improve the work environment. As the results of this indicator, last year contributed to define a set of goals that our bank sought to achieve during the year 2020, such as developing some of the policies and procedures followed to improve job awareness and increase professionalism at work. In addition, this year our bank has been relocated to the new headquarters in Arraya Tower, which in turn contributed to enhance the communication between the various groups and departments and creating a sense of familiarity and belonging among the employe

KEY INDICATORS

Total revenues (in million)

Total assets (in million)

Financing to customers (in million)

Customer deposits (in million)


8000
7000
6000
5000
4000
3000
2000
1000
Q1
Q2
Q3
Q4
Q1
Q2
Q3
Q4

44

THE CORPORATE GOVERNANCE REPORT

INTRODUCTION

Warba Bank is committed to applying the best practices in governance within the framework of the Central Bank of Kuwait's instructions, issued in June 2012, on Corporate Governance Rules and Regulations at Kuwaiti banks. The bank has fully complied with these regulations in terms of designing the systems, organizational structures and functions that ensure institutional control. In addition, the bank pays due diligence to full commitment in the implementation of the nine key pillars of the governance rules and regulations at Kuwaiti banks, a compliance with regulations that has become a deeply rooted culture across the bank. In addition, the Central Bank of Kuwait issued an update in September 2019 to its instructions concerning corporate governance rules and regulations at Kuwaiti banks. Warba Bank has come a long way in meeting the new requirements since the issuance of the last instructions; board and board committees charters have been updated to satisfy the new requirements and work is in progress to meet the remaining requirements for the appointment of independent members in the board of directors and other new requirements, as mandated by the instructions within the prescribed deadline.

The commitment to corporate governance rules and regulations ensures that Warba Bank has the ability to balance risk-related activities appropriately, maximizing protection of shareholders' returns. In addition, Warba Bank believes that having robust corporate governance principles safeguards the interests of all key stakeholders, and also serves as a shield against all forms of mismanagement and fraud activities, enhancing the accountability and transparency at the bank.

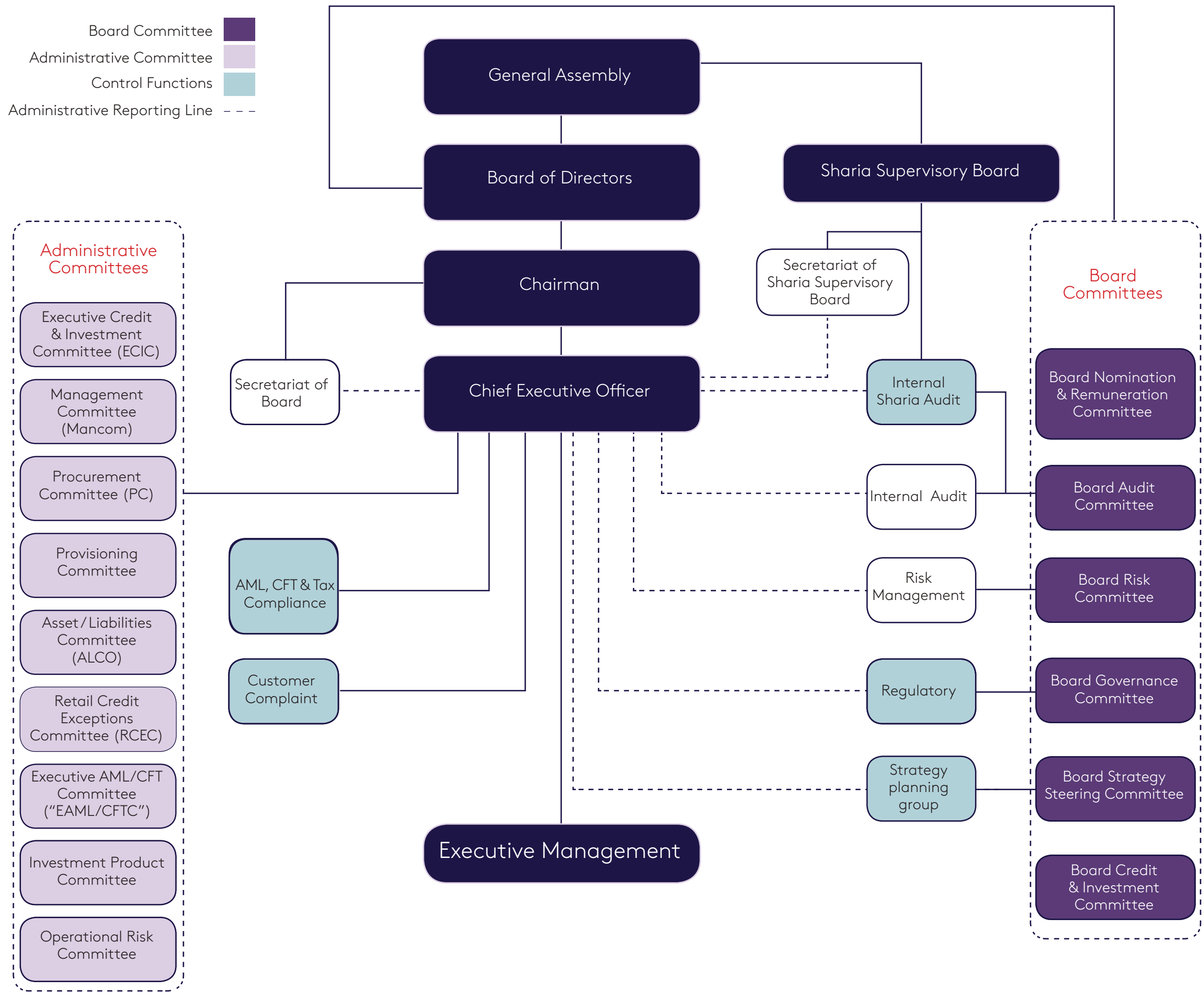
Therefore, Warba Bank prides itself on having a robust and sound governance framework, based on regulatory instructions, that helps to apply best practices of sound governance.

WARBA BANK'S KEY SHAREHOLDERS (5% AND ABOVE)

Name	Shareholding Percentage
Kuwait Investment Authority	24% Direct – 1.499% Indirect
The Public Institution for Social Security (PIFSS)	7.623% Indirect
Al Sayer Group Holding Company	10.006% Direct
Abdullah Saleh Al-Shalfan	7.354% Direct

ORGANIZATIONAL STRUCTURE

The bank's organizational structure has been designed with maintaining transparency and clarity to facilitate decision in mind – taking process, achievement of sound corporate governance and ability to define authority limits that clearly sets key responsibilities and duties of the board of directors, executive management and heads of supervisory and control functions in the bank. The bank's organizational structure has been updated to cover all CBK requirements. The last update was made on 19/10/2020.



BOARD OF DIRECTORS

ROLES AND RESPONSIBILITIES

The board of directors continues to assume full responsibilities stipulated in the Articles of Association and Corporate Governance instructions, as issued by the Central Bank of Kuwait on 20/6/2012, as well as the updates to these instructions by CBK on 10/9/2019. These generally focus on preserving the interests of depositors, shareholders, creditors and employees. As part of compliance with the corporate governance rules and instructions, the board of directors has approved all corporate governance policies, set new ones and ensured putting them into practice, in addition to approving the Corporate Governance Manual and uploading it to the bank's website.

The board of directors is responsible for reviewing and approving the bank's strategic plan, setting the budget and comparing targets with actual results and setting business priorities. The board of directors also monitors the implementation of such strategies. It also sets and approves the policies covering the bank's various activities.

The board of directors is responsible for monitoring the bank's vulnerabilities to ensure having the proper structures for managing risks and internal controls in place; reviewing the adequacy and availability of systems in light of the laws and regulations applicable to the bank; ensuring there are written policies in place covering the bank's various activities and that they are annually reviewed for enhancement and improvements. The board of directors, in cooperation with the executive management, reviews the policies and regulatory controls on a regular basis,
including internal control and supervisory functions, in order to identify and tackle weaknesses and risks areas for improvements; ensuring that control and supervision functions are performed satisfactorily, have the required functional support and that they perform effectively and independently.

BOARD MEMBERS TRAINING DURING 2020

Warba Bank takes the utmost care in training programs for members of the board of directors, as these programs are pivotal in developing leadership skills. Despite the challenges faced during 2020, the bank arranged a training program on corporate governance, anti-money laundering/terrorist financing and cybersecurity awareness, in cooperation with a specialized advisory training agency. In addition, the bank arranged for the Sharia Training Program, provided by a member of the Sharia Supervisory Board, pointing out the differences between Islamic banks and conventional banks. The members were also provided with an electronic training program to raise their awareness of cybersecurity issues. A number of the board members have been given the chance to attend The International Banking Conference "Shaping the Future" organized by the Central Bank of Kuwait.

BOARD MEMBERS FOR THE FOURTH SESSION (2019 – 2021)

At the Ordinary General Assembly meeting held on 20 March 2019 for the fiscal year that ended 31 December 2018, the bank's board of directors were elected, composing of 10 members for the fourth session (2019-2021).

BRIEF ON THE BOARD MEMBERS

1. Mr. Abdulwahab Abdullah Al Houti - Chairman (Elected)

Mr. Al Houti holds a bachelor's degree in business administration from Kuwait University (1976) and master of business administration from Newhaven University, USA (1979). He has been a board member in Warba Bank since 2013, then elected to be the board chairman in March 2016 where he currently resides in that position. He has also been the "volunteer" advisor of the chairman of the International Islamic Charity Organization from 2009. He commenced his career as a faculty member and head of the business administration department at the commercial institute from 1979 to 1983, and then assumed the position of department director and assistant undersecretary in the Ministry of Awqaf and Islamic Affairs from 1983 to 1994. Al Houti became the deputy secretary-general of Waqfi Channels at the General Secretariat of Awqaf from 1994 until 2004. He has been a board member in several companies and banks, namely Boubyan Bank, Bangladesh Islamic Bank, Capivest Bank and Real Estate Asset Management Company (REEM).

2. Mr. Hamad Musaed Al Sayer - Vice Chairman (Elected)

Mr. Al Sayer holds a bachelor's degree in finance from Seattle University, USA (1997) and an MBA from Maastricht University of Business Administration (2006). He has been Warba Bank vice chairman since March 2019 and has been serving as the chief executive officer (CEO) of Al-Sayer Franchising General Trading and Contracting Company W.L.L, since 2003. Mr Al Sayer started his career in the corporate finance sector at the National Bank of Kuwait and was there from 1998 to 2003. He has been a chairman and member the board of directors in a number of local and regional companies and financial institutions including, but not limited to, Al Dhow Investment Company, United Securities Brokerage Company in Egypt, Vision Securities Company in the Sultanate of Oman and FIMBank in Malta.

3. Mr. Bader Khalid Al Shalfan - Board Member (Elected)

Mr. Al Shalfan holds a bachelor's degree in business administration from Kuwait University (2000) and has been a member of Warba Bank's board of directors from March 2019 to the present. He joined the Ministry of Finance in 2001 as an officer and researcher in the procurement systems department. Later, he founded Health Company with a group of partners, holding the position of the general manager for over ten years. He then founded Bond International Real Estate Company in 2013 and continues to serve as the general manager of the company, providing advisory services and studies in the domestic and international investment/real estate market.

4. Mr. Abdulaziz Abdullah Al Jaber - Board Member (Elected)

Mr. Al Jaber holds a bachelor's of science in electrical engineering from Washington University, USA (1979). He has been a member of Warba Bank's Board of Directors since March 2016 until the preset and was appointed a member of Kuwait Petroleum Corporation's board of directors by an Amiri Decree, issued in August 2019. He began his career in Kuwait Oil Company in 1979 until 2004, where he held several positions until he became the executive assistant of the managing director for administration affairs. He then moved to Kuwait Petroleum Corporation in the position of the executive assistant for privatization affairs from 2004 to 2005. Al Jaber began a new career in 2005 at Kuwait Finance House and held the positions of assistant general manager of the support services sector, the general manager of human resources and general services sector and later a consultant until 2014. He has been a member of the board of directors in a several companies most notably Petrochemical Industries Company, Gulf Oil Company and Human Investment Corporation.

5. Mr. Mohamed Hamed Al Shalfan - Board Member (Elected)

Mr. Al Shalfan holds a bachelor's of science in civil engineering from the University of Colorado (2002) and a master of business administration "MBA" from DePaul University, USA (2008). He has been a member of the Warba Bank board of directors from March 2019 until the present. Mr Al Shalfan started his career at Kuwaiti Manager Holding Company from 2003 to 2017 in the position of deputy general manager for operations in 2010, then becoming the company general manager in 2013. In 2017, he was the executive partner of Sama Project Management Company. Since 2019, he holds the position of the CEO of Al Masaken International Real Estate Development (K.S.C). and has been a member of the board of directors at several local and regional companies, most notably Kuwaiti Manager Holding Company, Kuwaiti Manager Ready Mix for Concrete Production, Kuwaiti Manager - Bahrain, Kuwaiti Manager - Oman, Khaleeji Manager - Saudi Arabia and Baitak Real Estate Company in Saudi Arabia.

6. Mr. Mohamed Riyad Al Mutawa - Board Member (Elected)

Mr. Al Mutawa holds a bachelor's degree in finance from Kuwait University (2001) and has been a member of Warba Bank's board of directors from March 2016 until the present. He currently holds the position of investment manager at the Kuwait Investment Authority since 2001. He has been a member of the board of directors in a number of companies such as Pakistan Kuwait Investment Company, Arab Sea Limited Company, Farah Al Magrib Real Estate Company and National Offset Company. In addition, he participated in several training courses, programs and seminars in various fields.

WARBA BANK

7. Mr. Mohammad Abdulredha Saleem - Board Member (Elected)

Mr. Saleem holds a bachelor's of business administration in finance from Kuwait University (1985) and has been a member of Warba Bank's board of directors since March 2016 until the present. He has gained professional experience from his service of over 30 years at Kuwait Investment Authority, where he held various positions since 1986 including the treasury department manager from 2006 until the present. He currently holds the position of vice chairman in the Arab Banking Corporation. He has been a chairman and/or member of the board of directors in a number of companies such as Generations Fund Holding Company, Kuwait Investment Company, the Egyptian Kuwaiti Real Estate Development Company, Gulf Custody Company, Kuwait Real Estate Holding Company and Kuwait Flour Mill & Bakeries Company. He also participated in many theoretical and practical courses at leading banks and global financial institutions in areas of portfolios management, investment and capital markets.

8. Mr. Musaab Omar Al Fulaij - Board Member (Elected)

Mr. Al Fulaij holds a bachelor's of science in business administration, finance major from Saint Louis University, USA (1997) and has been a member of the board of directors at Warba Bank since September 2017. He started his career in EQUATE Petrochemical Company from 1997 until 2001. He then moved to Kuwait Investment Authority in 2001, where he currently resides serving as senior investment manager. He participated as a member in the board of directors in several companies and committees such as the International Civil Company in France and served on the advisory committee of the Agricultural Portfolio at Kuwait Industrial Bank. He has participated as a member on the advisory committee of the industry finance portfolio in accordance with the provisions of Islamic Sharia, since 2010, in addition to participating in many courses, training programs and seminars in various fields.

9. Mr. Hisham Abdulrazzaq Al Razzuqi - Board Member (Elected) (Independent on 30/12/2020)

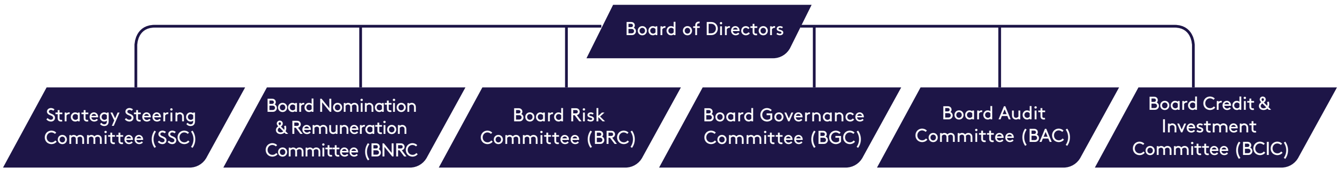
Mr. Al Razzuqi holds a bachelor's degree in public administration from the American University of Beirut (1973) and advanced management program from Harvard University (1988). He has been a board member in Warba Bank since August 2013 until the present. He commenced his career in Kuwait Foreign Trading & Contracting Investment Company in 1974 until 1984, assuming several positions, the last of which being deputy general manager. He then joined Gulf Investment Corporation as deputy CEO from 1984 to 1995, promoted to general manager from 1995 to 2001, then to CEO from 2001 to 2012. He is now a board member of Arab African Bank, Egypt and the chairman of the advisory board of The Conference Board Gulf Center for Economics and Business Research and a global advisor to The Conference Board (New York), He served as a board member and chairman in more than 20 local and regional companies, banks and financial institutions, namely Bahrain Steel Company (Foulath), Gulf International Bank, Bahrain, Arab Insurance Group (ARIG) Bahrain, National Industrialization Company and Al Zamil Industrial Investment in KSA, Burgan Bank, Kuwait Investment, Tawasul Telecom Company, Kuwait Reinsurance Company and Global Investment House.

10. Mr. Yousef Ibrahim Al Ghanim - Board Member (Elected)

Mr. Al Ghanim holds a bachelor's degree in accounting from the College of Business Administration at Kuwait University (2006) and the general manager program from the University of Chicago, USA (2017). He has been a member of Warba Bank board of directors from March 2019 until the present. He began his career at the Real Estate Investment Department of the Real Estate Activities Company from 2003 to 2007. He moved to Abu Dhabi First Bank - Kuwait Branch from 2007 to 2010, then assumed the position of chief investment officer at Al Misaila World General Trading Company from 2010 to 2014. He later joined Al Aman Investment Company from 2014 until it was merged with The Securities House Company where he held several key positions, most recently as deputy chief executive officer. He has been a member of the board of directors for several financial and banking institutions such as Al Aman Investment, Gulf Commercial Bank in Bahrain, GFH Capital Limited in Dubai and GFH Financial Group in Bahrain.

BOARD COMMITTEES – MEMBERSHIP AND DUTIES

The board of directors has established five board-level committees and assigned them with the responsibilities to act on behalf of specific matters. The respective committees are established in line with corporate governance principles at banks and the applicable regulatory requirements.



BOARD CREDIT & INVESTMENT COMMITTEE (BCIC)

The committee reviews, evaluates, develops and recommends all issues related to financing and investment proposals, fees and commissions, financing portfolio performance and investments for the board's approval, as well as the legal actions taken for non-performing financing. The committee has specific delegated approval authority for credit financing and investment decisions. The committee is composed of the following members:

• Mr. Hisham A. Al Razzuqi	Chairman
• Mr. Yousef Ibrahim Al Ghanim	Vice Chairman
• Mr. Bader Khalid Al Shalfan	Member
• Mr. Abdulaziz A. Al Jaber	Member

BOARD AUDIT COMMITTEE (BAC)

The committee reviews the scope, effect and extent of adequacy of the internal and external audit at the bank, as well as key accounting issues of material impacts on the bank's financial information and internal controls. It ensures sufficiency of the resources designated for control functions. It reviews the bank's financial statements before submission to the board of directors, ensuring the adequacy of the necessary provisions.

BAC evaluates the performance of the chief internal auditor and his remunerations and considers the recommendation of the executive management regarding the appointment and termination of external auditors and determining their fees. The committee is composed of the following members:

• Mr. Mohammad A. Saleem	Chairman
• Mr. Musab Omar Al Fulaij	Vice Chairman
• Mr. Mohamed Hamed Al Shalfan	Member
• Mr. Mohamed Riyad Al Mutawa	Member

BOARD GOVERNANCE COMMITTEE (BGC)

The committee assists the board of directors to fulfill the governance responsibilities, prepares and updates the bank's corporate governance manual and ensures compliance of the bank's related parties with implementing governance requirements and rules. The committee submits reports to the board of directors on these issues and reviews the contents to be published in the annual report in respect of corporate governance. The committee is composed of the following members:

BGC members up until 29th March, 2019:

• Mr. Abdulwahab A. Al Houti	Chairman
• Mr. Mohammad A. Saleem	Vice Chairman
• Mr. Hamad Musaed Al Sayer	Member

BOARD RISK COMMITTEE (BRC)

The committee assists the board of directors to perform its duties and responsibilities in respect of strategies, risk appetite and risks associated with financing and investment activities. The committee is also responsible for highlighting and developing the bank's risk strategy, risk appetite and other risk related measures such as; reviewing the reports of the risk Management group; reviewing the bank's risk and control policies and recommends their approval by the board of directors. The committee is composed of the following members:

• Mr. Mohamed Hamed Al Shalfan	Chairman
• Mr. Mohamed Riyad Al Mutawa	Vice Chairman
• Mr. Hisham A. Al Razzuqi	Member
• Mr. Yousef Ibrahim Al Ghanim	Member

BOARD NOMINATIONS & REMUNERATIONS COMMITTEE (BNRC)

The committee assists the board of directors in determining the eligibility of the nominees to the board membership, the nominees for the positions of CEO, CEO's deputies and assistants. It also ensures the efficiency and application of the nomination policy and its consistency with the bank's objectives, ensures the efficiency and integrity of compensation and rewards policies and practices in the bank. The committee is composed of the following members:

• Mr. Hamad Musaed Al Sayer	Chairman
• Mr. Abdulaziz Abdullah Al Jaber	Vice Chairman
• Mr. Bader Khalid Al-Shalfan	Member
• Mr. Musab Omar Al Fulaij	Member

STRATEGY STEERING COMMITTEE (SSC)

The committee assists the board of directors in undertaking its supervisory role for developing and implementing the bank's strategic plan and its associated risks. The committee monitors the strategy implementation to ensure compliance thereof in due time. The committee is composed of the following members:

• Mr. Abdulwahab A. Al Houti	Chairman
• Mr. Hamad Mousaed Al-Sayer	Vice Chairman
• Mr. Mohamed Hamed Al-Shalafan	Member
• Mr. Mohamed A. Saleem	Member
• Mr. Hisham A. Al Razzuqi	Member
• Mr. Yousef Ibrahim Al-Ghanim	Member

ATTENDANCE AT MEETINGS OF THE BOARD AND THE COMMITTEES OF THE BOARD FOR THE PERIOD FROM 1st JANUARY 2020 TO 31st DECEMBER 2020

Member	Title	BoD	BCIC	BAC	BRC	BGC	BNRC	BSSC
1. Abdulwahab A. Al Houti	Chairman	13				5		1
2. Hamad M. Al Sayer	Vice Chairman	16				6	12	2
3. Bader K. Al Shalfan	Member	16	23				12	
4. Abdulaziz A. Al Jaber	Member	14	22				11	
5. Mohamed H. Al Shalfan	Member	16		10	10			2
6. Mohamed R. Al Mutawa	Member	16		9	9			
7. Mohammad A. Saleem	Member	16		10		6		2
8. Musaab Omar Al Fulaij	Member	16		10			12	
9. Hisham A. Al Razzuqi*	Member	15	22		10			2
10.Yousef Ibrahim Al Ghanim	Member	16	22		9			2
Total number of board & committee meetings in 2020		**16**	**23**	**10**	**10**	**6**	**12**	**2**

*Mr. Hisham A. Al Razzuqi was nominated as an independent member of the board of directors in the ordinary general meeting dated 30/12/2020.

MANAGEMENT COMMITTEES – DUTIES AND RESPONSIBILITIES

The board of directors has approved the formation of certain executive level committees for performing ad-hoc tasks and responsibilities in order to assist the chief executive officer (CEO) in the efficient and effective administration of the bank. Most of the committees are chaired by Mr. Shaheen Hamad Alghanim, CEO of the bank.

1. EXECUTIVE CREDIT & INVESTMENT COMMITTEE (ECIC)

ECIC is authorized to consider all credit financing and investment proposals. The committee approves such proposals or refers them to the credit & investment committee as per delegated authority. The ECIC is responsible for monitoring and reviewing the bank's financing and investment portfolio and taking the appropriate measures to ensure sound performance of the bank's financing and investment assets.

2. ASSETS AND LIABILITY MANAGEMENT COMMITTEE (ALCO)

ALCO is responsible for all matters related to managing and controlling the balance sheet including all aspects of assets and liabilities, assets allocation, liabilities structure, liquidity requirements and all other matters in respect of capital adequacy and managing market risks and liquidity risks to which the bank is exposed. The committee is responsible for supervising all aspects of optimal balance of assets and liabilities on the short, medium and long term to ensure business growth and profitability while maintaining compliance with the regulatory and financial requirements.

3. PROVISIONING COMMITTEE

The provisioning committee is responsible for analyzing and evaluating all outstanding exposures under approved financing facilities and investments, for the purpose of determining whether or not an exposure is impaired or has any signs of irregularity; warranting that provisions are built in accordance with the internationally accepted financial reporting standards and Central Bank of Kuwait regulatory requirements. In addition, the committee is delegated to review debt write-offs and provide relevant recommendations to the board audit committee (BAC) and board of directors.

4. MANAGEMENT COMMITTEE (ManCom)

The committee is responsible for developing and implementing the bank's vision and strategy. It convenes regularly to ensure information flow and consensus views to the executive management in respect of decisions affecting the bank's overall organization and position. The committee's scope of work includes, but is not limited to, matters pertaining to the bank's business plans, policies, processes and procedures, new products and services programs, special projects, human resources and information technology. It also tackles and decides on all other issues which do not fall within the remit of any specific committee.

5. PROCUREMENT COMMITTEE

The procurement committee was established to ensure that the procurement process of all goods, services, contracts and works necessary for bank's business are undertaken properly according to a transparent, effective and timely approach; taking into account best practices in the field of procurement. The main role of the committee is to oversee the bank's needs for procuring products and services that fit their objectives. The committee ensures that procurement is carried out in proper time, at the right place and against the appropriate cost in such a manner that balances the overall corporate requirements of consumption rationalization, transparency and accountability. It also ensures that the procurement activity is performed in accordance with the highest ethical standards of fair and equitable treatment with suppliers and vendors who provide the bank with services and goods.

6. RETAIL CREDIT EXCEPTIONS COMMITTEE (RCEC)

The retail credit exceptions committee ("RCEC") has been formed for reviewing all personal finance transactions that require thoughtful and deeper study, giving opinion about the viability of granting exceptions and taking decisions for approval/disapproval, depending on specific credit grounds and rationale in the best interest of the bank's long-term business objectives under acceptable risk tolerance parameters.

7. EXECUTIVE AML/CFT COMMITTEE (EAML/CFTC)

Warba Bank, in implementation of CBK instructions dated 28th August 2019, has established a committee for reporting suspicious transactions. The committee's role is to take the final decision on suspicious cases that the bank should report to the Kuwaiti Financial Investigation Unit. The committee is composed of four members headed by the AML/CFT officer and membership of the regulatory division, the legal department and the Retail Banking Group. The committee prepares a quarterly report of all suspicious transactions, agreed by the committee, for submission to Kuwait Financial Intelligence Unit and submitted to the board risk committee and board of directors

8. INVESTMENT PRODUCT COMMITTEE (IPC)

The investment products committee (IPC) is responsible for the introduction, roll out and management of investment products, offerings and services, licensed by the Capital Markets Authority, to the bank's existing and prospective clients and ensuring that they are carried out in accordance with the strategy for asset management approved by the board of directors.

9. OPERATIONAL RISK COMMITTEE (ORC)

Operational risk committee (ORC) is a management level committee that has been formed for the purpose of managing risks other than market, liquidity and credit risk. The committee convenes at least once per quarter to assess and monitor the overall control environment of the bank and recommend or approve actions to mitigate risks whose impact (should it materialize) is over the bank's risk appetite. The risks managed by ORC include, but are not limited to, operational risk, information security risks, IT risks, AML risks, legal risks, regulatory compliance risks and sharia risk. It also reviews and monitors the bank's business continuity plans and ensures that a managed process is followed to develop, maintain and test business continuity plans.

THE EXECUTIVE MANAGEMENT

	Name	Title	Experience in years	Nationality	Education
1.	Shaheen Hamad Al Ghanem	Chief Executive Officer	32	Kuwait	Master
2.	Anwar Bader Al Ghaith	Acting Deputy Chief Executive Officer Support Services & Treasury	23	Kuwait	Bachelor
3.	Khaled Hasan Hafez	Chief Financial Officer	27	Egypt	Bachelor
4.	Paul Quigley	Chief Risk Officer	42	Ireland	Doctorate
5.	Amr Mohamed El Kasaby	Chief Internal Auditor	32	Egypt	Bachelor
6.	Simon Larby Clements	Chief Operations Officer	45	British	Bachelor
7.	Haytham Abdulaziz Al Terkait	Chief Information Technology Officer	32	Kuwait	Bachelor
8.	Mohamed Iqbal Bn Mohamed Iqbal	Chief Treasury Officer	32	Malaysia	Bachelor
9.	Mohamed Atif El Shareef	Chief Strategy and Digital Officer	21	Palestine	Master
10.	Thuwaini K. AlThuwaini	Chief Investment Banking Officer	15	Kuwait	Bachelor
11.	Musaed M. Al Mazyad	Acting Chief Retail Banking Officer	19	Kuwait	Bachelor
12.	Faisal A. Al Nassar	Acting Chief Corporate Banking Officer	21	Kuwait	Bachelor
13.	Abdullah Jassem Hamada	Acting Chief Human Resources & General Services Officer	15	Kuwait	Bachelor

BRIEF ON THE EXECUTIVE MANAGEMENT

1. Shaheen Hamad Al Ghanem - Chief Executive Officer "CEO"

Alghanem holds a master's degree in business administration from Maastricht University and a bachelor's degree in accounting from Kuwait University. He has broad and long experience of over 32 years in banking and investment. He began his career in the oil sector in 1988 until 1999, then moved to the financial and investment sector where he served as assistant chief financial officer in the International Investor Company in 1999. He moved to Kuwait Finance House in 2001 where he held several positions in various departments, the last of which being general manager of the international banking department in 2012 and acting chief investment officer in 2013. Alghanem joined Warba Bank in March 2014 as deputy CEO for investment and treasury and then assumed the position of chief executive officer since 2016.

2. Anwar Bader Al Ghaith - Acting Deputy Chief Executive Officer Support Services & Treasury "D-CEO"

Al Ghaith holds a bachelor's degree in accounting from Kuwait University and has more than 23 years of experience in the government & private financial sectors. His career started in 1997 as a tax inspector at the Ministry of Finance. After serving for 3 years, he joined Kuwait Finance House in 2001 and was promoted to the head of local real estate operations and promoted again in 2005 to the operations department manager. In 2011, until 2014, he became the chief operations officer and was in charge of the banking operations, information technology and human resources. In 2014, he was appointed as the acting chief executive officer. In 2015, Mr Al Ghaith joined Gulf Investment Corporation as the head of operations division. Afterwards, he joined the Central Bank of Kuwait in 2016 and held many positions such as the executive director for organization & administration and the executive director for information technology & banking operations as well as the acting department head for foreign operations department. In 2020, Mr Al Ghaith joined Warba Bank and currently holds the position of acting deputy chief executive officer for support services & treasury. Mr Al Ghaith has successfully completed many training and leadership programs such as the leadership development program from Harvard Business School in 2007. In addition, he has many professional certifications such as certified Islamic banker from the Accounting & Auditing Organization for Islamic Institutions (AAOIFI) in 2012. He is also a certified & licensed external auditor from the Ministry of Commerce in the State of Kuwait.

3. Khaled Hasan Hafez - Chief Financial Officer "CFO"

Hafez obtained a bachelor's degree in accounting from Cairo University. In addition, he is a fellow member of the chartered accountant association in USA, a holder of CPA from the Accounting Council of California and has a diploma in Islamic economy from Faculty of Sharia – Kuwait University. Hafez has over 27 years of experience in the area of Islamic banks, financial institutions and auditing. He worked at a number of the top global audit and consultancy firms and held an executive position in Kuwait Finance House. He has been with Warba Bank since its inception and has contributed in setting the bank, its infrastructure and organization. Currently, he holds the position of the chief financial officer.

4. Paul Quigley - Chief Risk Officer "CRO"

Paul holds a PhD in accounting and finance from the University of Birmingham (UK), a master of science degree in investment and treasury and a bachelor of business studies degree from Dublin City University. He was a Fulbright scholar at the University of Illinois in Urbana-Champaign. He has more than 42 years of experience in banking, academia and public administration. He worked for Allied Irish Bank's as general manager (risk measurement and architecture) for 12 years and for Kuwait Finance House as CRO for 4 years. Previously he worked at the Irish Department of Finance and the Revenue Commissioners and as an academic at Dublin City University. Dr Paul Quigley joined Warba Bank as CRO in June 2018.

5. Thuwaini Khalid Al Thuwaini - Chief Investment Banking Officer "CIBO"

Al Thuwaini holds a bachelor's degree in economics from the University of Maryland, College Park and has attended many programs for executive leadership development. He has over 15 years of experience in the banking and investment sector, 6 of which were spent in Rasameel Structured Finance Company from 2008 till 2015 where he held several positions, including Vice President - Head of Deal Structuring and Analytics. Al Thuwaini joined Warba Bank in 2015 and currently serves as Chief Investment Banking Officer.

6. Simon Larby Clements - Chief Operations Officer "COO"

Clements holds a bachelor's degree in business administration from the UK. He has over 45 years of experience in financial services in Europe, Asia and the Middle East Region. He has previously held senior executive positions at several leading banks where he headed the operations and technology group. He has also successfully managed the retail business of two mid–sized Kuwaiti banks in recent years. As a senior executive, Clements has developed and implemented strategies at several institutions with significant success. He joined the bank in 2014 as chief operations officer, followed by holding the position of chief retail banking officer since 2017, and in 2020, he once again began serving as the chief operations officer.

7. Haytham Abdulaziz Al Terkait - Chief Technology Officer "CTO"

Al Terkait holds a bachelor's of science in mechanical engineering from Metro State - Denver, Colorado, USA (1988). He attended many key specialized training courses on IT sciences. Al Terkait has over 32 years of experience in this field acquired throughout his career, as he worked for Kuwait Institute for Scientific Research from 1989 to 2002 and Kuwait Finance House from 2002 to 2012 as infrastructure services manager. He joined Warba Bank in 2012 as chief technology officer and played a significant role in setting up the infrastructure of the information technology group in the bank.

8. Mohamed Iqbal Bn Mohamed Iqbal - Chief Treasury Officer "CTO"

Mohamed Iqbal, a Malaysian, holds a B.Sc. business administration from Oklahoma State University, USA. A senior banker, he has more than 32 years' experience in the financial industry and has helmed various senior management responsibilities. Prior to joining the bank, he was chief officer at Kuwait Finance House Malaysia Berhad from 2005 to 2016 in three different capacities; general manager, treasury at Malaysia's Employees Provident Fund from 2003 to 2005, and assistant general manager/treasurer of Malaysia's AmBank Berhad from 1996 to 2003. Mohamed Iqbal joined Warba Bank in May 2016 and currently he holds the position of the chief treasury officer.

9. Mohamed Atif El Shareef - Chief Strategy and Digital Officer "CSDO"

El Shareef holds a bachelor's degree in electrical and electronics engineering from the Middle East Technical University and a master's degree in information systems and technology management from Barrington – Atlanta University, USA (2005). He has more than 21 years of experience in the banking industry, where he held several positions in National Bank of Kuwait (NBK) such as executive manager, head of performance analysis and reporting division from 2001 to 2012 and then moved to Boubyan Bank in 2012 where he served as assistant general manager-business performance and planning division until 2015. He then joined Warba Bank as chief strategic planning officer and currently holds the position of chief strategy and digital officer since 2019.

10. Musaed M. Al Mazyad - Acting Chief Retail Banking Officer "ACRBO"

Al Mazyad holds a bachelor's degree in political science from Kuwait University (2001) and has more than 19 years of experience in the field of retail banking, where he joined Gulf Bank as a teller in 2001 and was gradually promoted to be an area manager in 2015. He joined Warba Bank as a branches department manager at the end of 2015, then got promoted to head of sales & distribution channels division in 2017. Following this, he held the position of deputy chief retail banking officer in 2019 and now serves as the acting chief retail banking officer. He also won many awards and achievements, including the CEO of the distinguished employees' award at Warba Bank in 2016, and attended the executive leadership development program from the University of Chicago Booth Business School in 2017.

11. Amr Mohamed Samy El Kasaby - Chief Internal Auditor "CIA"

Mr. El Kasaby joined Warba Bank in 2020 as chief internal auditor. He has more than 30 years of experience in the fields of external and internal audit, governance, risk and fraud investigation, and he held a position of group chief internal auditor in Burgan Bank for 12 years and also had board membership exposure in addition to technical advisor experience with Burgan's subsidiaries. He holds a bachelor of commerce degree –accounting & auditing major from Kuwait University. He also holds several certificates such as a certified professional forensic accountant (CPFA) and certified professional internal auditor (CPIA) from the Association of Certified Chartered Accountants (ACCA) in 2017, a certified corporate governance officer (CCGO) from London School of Business and Finance in 2016, and a certified internal control auditor (CICA) from the Institute of Internal Controls in 2011. In addition, he has a diploma in Islamic economy from faculty of Sharia, Kuwait University in 2005, and passed the certified public accountants exams in 1993 from Oregon State, USA.

12. Faisal A. Al Nassar - Acting Chief Corporate Banking Officer "ACCBO"

Al Nassar holds a bachelor's degree in arts & science in economics from the University of Colorado, USA (1998) and has over 21 years of experience in the corporate banking & corporate finance sectors, starting in 1999 when he joined the Bank of Kuwait & the Middle East as credit officer, gradually progressing to be assistant manager in 2003. In 2005, he joined Aayan Leasing & Investment Company as vice president – Treasury & Corporate finance then joined Boubyan Bank as senior manager in corporate banking department in 2010. He joined Warba Bank in 2012 as senior manager in corporate banking group where he gradually progressed to senior director- commercial corporate banking department. Currently, he holds the position of acting chief corporate banking officer since 2020. He also has a certificate in credit management from the Institute of Banking Studies (1999).

13. Abdullah Jassim Hamada - Acting Chief Human Resources & General Services Officer "ACHRGSO"

Hamada holds a bachelor's of science in management information systems from Kuwait University. He joined the National Project for Leaders of Development Program (Thukhur) in 2012 under the supervision of Johnson College of Business, Cornell University, USA. He also obtained certificates from the Executive Directors and Leadership Development Program at the banking sector from Harvard Business School and Chicago Booth College. He has over 15 years of experience, starting his career in the petrochemical and banking sectors. He began his career in the public sector then moved to the petrochemical, where he worked in human resources for EQUATE Petrochemical Company. He joined Warba Bank during the foundation stage in 2011, then moved to Al-Ghanim Industries Company, and returned to Warba Bank in 2015 where he currently holds the position of acting chief human resources and general services officer.

COMPENSATION POLICY (SALARY & REMUNERATION)

The bank's compensation policy (salaries and remunerations) is in line with the strategies set by the board of directors in accordance with the provisions of the labor law in the private sector, the corporate governance mandates, issued by the Central Bank of Kuwait and with the recommendations of the nomination and remuneration committee. This policy is in line with the best international practices that encourage and reward employees for their outstanding performance. In addition, compensation is a significant factor in attracting caliber with expertise and efficiency, from various companies and sectors, to work for Warba Bank. The bank is keen to regularly update this policy. Such updates are clearly demonstrated by "indicators", specifically designed to reflect the performance of individual or team activities. They also provide flexibility to cope with labor market variables, requirements and benchmarks according to organized and standard methodology. The bank has set financial performance measures for revenue, profits, cash flow, or return on equity-based objectives, and other economic objectives associated with Risk Adjusted Return on Capital (RAROC). The bank has set non-financial or non-economic performance measures that assess compliance with internal controls, teamwork, or other qualitative criteria for evaluating staff non-financial and non-economic contributions. The bank has paid great attention to updating these measures, given the fact that the human capital has much more to offer other than financial and economic contributions.

The compensation package (salaries and remunerations) includes several items given to the employees. Such items are divided into two categories:

- Basic salary paid monthly to the employee and determined according to the job evaluation rating and the bank's grading system.
- Allowance amounts paid monthly to employees along with the salary as per employee's nature of work.
- Annual bonus reward given to the employee at the yearend, depending on employee's performance assessment and the bank's performance.
- Incentives: Schemes set for motivating staff for production increase and performance improvement.
- Other benefits like travel tickets, medical insurance, tuition allowance, end of service benefits plus remunerations approved by the board of directors in coordination with the board nominations and remunerations committee and the board risk committee.

The annual compensation package (fixed and variable) is reviewed by the nominations & remunerations committee and approved by the board of directors. The nominations & remunerations committee held 12 meetings for the year, ending 31/12/2020.
The bank engages with an external consultant to carry out a comprehensive review of the bank's compensation policy, schemes and procedures which will ensure that Warba Bank is in compliance with the implementation of the compensation policy and procedures in accordance with CBK instructions concerning corporate governance rules, issued on 10th September 2019.

Disclosures of salaries and remunerations as per CBK corporate governance instructions:

First: Board members' remunerations

The remunerations paid to the members of the board of directors during 2020 amounted KD 63,000.

Second: Compensations to the bank's highest paid executives:

The total compensations and remunerations paid to the six key executives who received the highest compensation package for 2020, including the CEO, CFO, CRO and CIA, amounted KD 1,103,878.940. This amount includes basic salaries, allowances, entitlements and end of service benefits.

Third: Compensations as per Warba's various categories of employees:

Total compensations paid to the executive management for 2020 (CEO and his deputies) and/or other senior executives whose appointment is subject to the approval of the regulatory and supervisory bodies amounted KD 2,071,068.50, inclusive of basic salaries, allowances, entitlements and end of service benefits.

Total compensations paid to the financial control and risk employees (13 employees) amounted to KD 1,063,144.639, inclusive of basic salaries, allowances, entitlements and end of service benefits.

Total compensations paid to the risk taker employees (28 employees) amounted KD 2,394,513.19, inclusive basic salaries, allowances, entitlements and end of service benefits. This category includes the top management, groups and department heads, with financial authorities who delegate responsibilities to their staff members but still assume the ultimate responsibility and accountability for the risks taken.

ANTI-MONEY LAUNDERING/COMBATING THE FINANCING OF TERRORISM

As a financial institution, Warba Bank is fully committed to mitigating and controlling threats and risks of money laundering and other financial crimes including the financing of terrorism. It complies with all laws and regulations issued by the Central Bank of Kuwait (CBK) on anti-money laundering (AML) and combatting the financing of terrorism (CFT). Accordingly, the bank has amended the relevant policies and procedures in accordance with AML/CFT law No. 106 of 2013, CBK instructions dated 23/7/2013 and any other subsequent regulatory guidelines, if required, as well as the latest instructions dated 14/5/2019 concerning AML/CFT. This approach ensures full compliance with all legislative and regulatory requirements. Most importantly, dealing with customers in accordance with risk assessment associated with money laundering and financing of terrorism and identification of risk factors associated with customers, banking transactions, and country risks.

Additionally, the bank confirms the adoption of the Know-Your-Customer (KYC) and due diligence principles on risk-based assessment throughout the customer's relationship with the bank. Further, the bank seeks to comply with the relevant international guidelines and best practices as per FATF recommendations in this regard. In order to combat money laundering and prevent financial crimes, Warba Bank ensures the effectiveness of its human resources and systems in identifying any unusual or suspicious transactions. Accordingly, Warba's staff members receive quarterly training to be familiarized with the patterns used in AML/CFT transactions issued by the KFIU. Also, staff are given guidance and tools that enable them to handle any such cases. It is noteworthy that Warba has set the required systems to mitigate the risks of money laundering and financing of terrorism. In implementation of CBK instructions dated 28/8/2019, the bank has set an AML/CFT committee for taking the final decision concerning suspicious transactions and reporting them to KFIU. Warba Bank also complies with the requirements of The USA Foreign Account Tax Compliance Act (FATCA) and the ministerial decisions issued in this respect. These efforts included amendments to applicable account opening forms, Know Your Customer forms (KYC) and other procedures for new account opening. A leading global audit firm approved by the Ministry of Finance has been engaged to act as the bank's consultant for verifying the implementation of the law requirements and reviewing the FATCA report for 2019 to technically verify the report accordance and accuracy. The FATCA report has been successfully uploaded before deadline to the Ministry of Finance website during August 2020.

As for implementing the agreement of the common reporting standards signed by the State of Kuwait on 19/08/2016 and the ministerial resolutions issued in this regard, Warba Bank is committed to implementing this agreement and the required amendments to the procedures, policies and forms that should be filled to prepare the reports required to be uploaded to the Ministry of Finance website in line with the terms of the agreement. An audit firm, approved by the Ministry of Finance, has been engaged to review the bank's processes to determine the extent of the bank's commitment with the requirements of the common reporting standards thus, the bank's CRS report for 2019 has been prepared and sent to the Ministry of Finance in due time in August 2020 and successfully uploaded to the Ministry of Finance website in due time.

COMPLIANCE

In line with the regulatory bodies' instructions in respect of the fundamental principles of compliance, the bank has given due care for the independency and required staffing, skills and experience of the regulatory division which undertakes compliance tasks in the bank. The bank has in place comprehensive policies and procedures to ensure full compliance with CBK's instructions and other regulatory authorities. Regulatory division applies best international standards and sound practices to enhance compliance culture across the bank, improve compliance control over the banking systems and maintain full compliance with the instructions of the regulatory authorities.

CODE OF BUSINESS CONDUCT AND ETHICS

Warba Bank's practices and activities are governed by the standards of behavioral ethical conduct that apply to all Warba staff members working for or representing the bank and serving its interests.

DISCLOSURE AND TRANSPARENCY

In line with the instructions from the Central Bank of Kuwait, Capital Markets Authority and Boursa Kuwait, corporate governance rules and standards stipulate enhancement of accurate and timely disclosure processes on all matters and significant information about the bank. The bank has set an ad-hoc disclosure & transparency department under regulatory division, dedicated to the disclosure of the bank's significant information to Boursa Kuwait and CMA. The bank's website constitutes a significant part of the disclosure channels, plus the annual reports, financial statements and notes, information related to the bank's activities such as the key products and services, and regular press releases published by media.

EXTERNAL SHARIA AUDIT REPORT OF WARBA BANK (K.S.C.P)- KUWAIT

for the Fiscal Year Ended 31 December 2020

To the Esteemed Shareholders
Warba Bank (K.S.C.P)- Kuwait

We have conducted the external Sharia audit over the operations and activities of Warba Bank (K.S.C.P)-Kuwait (the Bank) for the fiscal year ended 31 December 2020, in accordance with the instructions of the Sharia Supervisory Governance for Kuwaiti Islamic Banks issued by the Central Bank of Kuwait on 20/12/2016, which aim to obtain a reasonable and independent assurance that the Bank's operations and activities are carried out in compliance with Islamic Sharia rules and principles, in accordance with the resolutions and fatwas issued by the Bank's Sharia Supervisory Board (Sharia Supervisory Board).

Opinion

In our Opinion, the contracts, operations, and activities (transactions) concluded and executed by the concerned departments at the Bank during the fiscal year ended 31 December 2020 comply with Islamic Sharia rules and principles according to the resolutions and fatwas issued by the Sharia Supervisory Board.

Basis for Opinion

We have conducted the external Sharia audit based on the following professional instructions and standards:
1. Instructions of the of the Sharia Supervisory Governance for Kuwaiti Islamic Banks issued by the Central Bank of Kuwait on 20/12/2016.
2. External Sharia Audit Standard (No. 6) issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).
3. The International Standard on Assurance Engagements (Standard 3000), Assurance other than Audits or Reviews of Historical Financial Information.

These standards require us to adhere to the ethical requirements, plan and conduct the external Sharia audit to obtain reasonable and independent assurance that the Bank complies with Islamic Sharia rules and principles according to the resolutions and fatwas issued by the Sharia Supervisory Board.

Responsibility of the Management

The Bank's management is responsible for compliance with Islamic Sharia rules and principles in accordance with the resolutions and fatwas issued by the Sharia Supervisory Board in all contracts it concludes and transactions and activities it carries out, and relevant policies and procedures. The Bank's management is also responsible for establishing and maintain an efficient and effective system for internal Sharia control enables it to achieve compliance with Islamic Sharia rules and principles in all its transactions according to the resolutions and fatwas issued by the Sharia Supervisory Board.

Responsibility of the External Sharia Auditor

Our responsibility is to conduct the external Sharia audit in accordance with the instructions of Sharia Supervisory Governance for Kuwaiti Islamic Banks issued by the Central Bank of Kuwait on 20/12/2016, which aim to obtain a reasonable and independent assurance that the Bank's operations and activities are carried out in compliance with Islamic Sharia rules and principles, in accordance with the resolutions and fatwas issued by the Sharia Supervisory Board.

Summary of External Sharia Audit Procedures

We have conducted the external Sharia audit procedures according to the External Sharia Audit Standard (No. 6) issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and the International Standard on Assurance Engagements (Standard 3000), Assurance other than Audits or Reviews of Historical Financial Information, and we carried out the external Sharia audit procedures according to the followings:

1. Planning for external Sharia audit based on the potential Sharia risks.
2. Examine the Bank's internal Sharia control system, not to express opinion on the efficiency and effectiveness of the system, but with the aim to design appropriate external Sharia audit procedures that enable us to obtain a reasonable and independent assurance.
3. Assessment of the potential Sharia risks based on the Bank's Sharia risks matrix.
4. Design external Sharia audit programs based on the results of the potential Sharia risks assessment.
5. Using external Sharia audit programs in examining transactions on products, operations and activities executed by the Bank, on a sample basis.
6. Gathering the findings of the examinations and audits we conducted, discussing those findings – if any – with the departments responsible for execution such transactions at the Bank.
7. Issue a draft of the external Sharia audit report and discuss it with the concerned executive departments at the Bank.
8. Issue of the final external Sharia audit report.

Due to the significant impact of Covid-19 pandemic on business -and the resulting health requirements related to preventive distancing - which led us to follow remote audit procedures in accordance with best professional practices in this regard, in many instances during conducting our field audits on the concerned executive departments at the Bank, without affecting the objectives of our audit. In accordance with these considerations, we conducted several field audits visits to the concerned executive departments at the Bank. We conducted a number of 118 field audit visits. The first visit was on 18/11/2020 and the last one was on 31/01/2021.

WE CONDUCTED OUR EXTERNAL SHARIA AUDIT ON THE BANK INCLUDING THE FOLLOWING CONCERNED EXECUTIVE DEPARTMENTS:

- Sharia Supervisory Board Secretariat
- Treasury and Operations
- Retail Banking
- Direct Sale
- Marketing & Strategic Planning
- Compliance Department
- Quality Service Department
- Internal Sharia Audit Department
- Investment Department
- Banking cards
- Financial Control Department
- Human Resources Department
- Information Technology Department
- Administration Service
- Credit Department
- Corporate Department
- Branches & Operations
- Risk Management
- Legal Department
- Review Department
- Customer Complaints and Call Center

OUR EXTERNAL SHARIA AUDIT BASICALLY INCLUDED THE FOLLOWING:

1. Conduct discussions with the Bank's management on the Sharia supervisory and control system and the Bank's organizational and administrative structure.
2. Review the documents, systems, policies, and procedures adopted by the Bank to establish the framework for the Bank's internal Sharia control system, which included:
   - Review the minutes of the Sharia Supervisory Board meetings.
   - Review the manuals of policies and procedures for the internal Sharia control system.
   - Review job descriptions for some selected jobs.
   - Review the Bank's policies and procedures related to recruitment and employees training procedures.

- Review internal Sharia audit reports.
- Reviewing the Bank's policy related to reporting on Sharia violations - if any in the executed activities and operations.
- Reviewing the policies and procedures related to correcting Sharia violations if any.

3. Review the resolutions and fatwas issued by the Sharia Supervisory Board during the fiscal year ended 31/12/2020, related to concluded contracts, and products, operations and activities provided by or entered by the Bank and to ensure that they are implemented by concerned departments at the Bank, in accordance with the Sharia Supervisory Board's approvals.
4. Review the manuals of policies and procedures related to the operations, products and activities carried out by the concerned departments at the Bank and reviewing them to ensure that they are approved by the Sharia Supervisory Board.
5. Review the terms, conditions, contracts, and documents related to banking and financing products and operations provided by the Bank and reviewing them to ensure that they are approved by the Sharia Supervisory Board.
6. Review the contracts concluded with external parties by the concerned executive departments at the bank and reviewing them to ensure that they are approved by the Sharia Supervisory Board.
7. Reviewing the Bank's investment activities and operations to ensure that they are approved by the Sharia Supervisory Board.
8. Examining the transactions executed by the concerned executive departments at the Bank - on a sample basis - of the banking and financing products, operations, and contracts of the Bank to ensure that they were carried out according to the Sharia terms of reference established for those transactions, as follows:
   - The forms and contracts approved by the Sharia Supervisory Board.
   - Manuals of policies and procedures that have been approved by the Sharia Supervisory Board.
   - Policies, terms, and conditions that have been approved by the Sharia Supervisory Board.
9. The banking, financing and investment contracts, operations and products that have been examined and reviewed include, for example but are not limited to the following:
   - Banking accounts.
   - Banking cards.
   - Treasury products, operations, and contracts.
   - Corporate finance contracts.
   - Retail financing contracts.
   - Investment funds and portfolios.
   - Contracts concluded with external parties.

10. Reviewing Sharia Supervisory Board's report for the fiscal year ended 31/12/2020.

Abulsattar A. Kattan
Shura Sharia Consultancy

18 Jumada Alakhir 1442 AH
31 January 2021
State of Kuwait

ADEQUACY OF INTERNAL CONTROLS

Warba Bank's board of directors is responsible for reviewing and approving the effectiveness of the bank's system of internal control, for the purpose of ensuring effective and efficient operations, quality of internal and external reporting, internal control and compliance with laws and regulations. Senior management is responsible for establishing and maintaining the system of internal control, designed to manage the risk of failure, to achieve the bank's objectives. The system of internal control can only provide reasonable but not absolute assurance against
the risk of gross loss.

The board, through its committees, regularly reviews the effectiveness of the internal control systems as assessed by the various internal control functions. The board also ensures that these functions are properly positioned, staffed and resourced and are carrying out their responsibilities independently and effectively. The board also reviews the management letters issued by the external financial auditors and reviews the report on accounting and other records and internal control system, issued by the external auditor (ICR report).

The board believes that the internal control systems as of 31st December 2020 are adequate to provide reasonable assurance regarding the achievement of Warba Bank's objectives.

Based on CBK's instructions, the bank has engaged an independent external auditor in 2020 for conducting an independent review report on the bank's internal controls for 2019. Due to the outbreak of the coronavirus pandemic COVID-19 across the world and in Kuwait, the Central Bank of Kuwait has issued instructions postponing the submission of the required report until the end of September, 2020. Therefore, the report was presented to the board audit committee and the board of directors in the meeting held on 23/09/2020. The report, submitted to the CBK on 24/09/2020, indicated that the bank has set the accounting registers, other records, internal controls and processes as per the requirements of general guidelines manual issued by CBK on 15/6/2003 and CBK circular dated 14/1/2020. The issues raised in the report have had no material impact on the fair presentation of the bank's financial statements for the year ending 31/12/2019 and that the actions taken by the bank, for remedy of the issues raised in the report, were satisfactory. The follow-up report, issued by the external auditors for the period ending 31/12/2019 was sent to CBK on 7/01/2021 and concluded that the bank has resolved all findings in the said report.

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FASTEST
GROWING
CORPORATE
BANK KUWAIT
2020
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Finance
review

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P.O. Box 25578, Safat 13116
Kuwait

The Board of Directors
Warba Bank
P.O.Box 1220, Safat 13013
State of Kuwait

23 September 2020

Dear Sirs,

Report on Accounting and Other Records and Internal Control Systems

In accordance with our letter of engagement dated 6 April 2020, we have examined the accounting and other records and internal control systems of WARBA Bank K.S.C.P. ('the Bank') for the year ended 31 December 2019:

We covered the following departments and activities of the Bank:

- Financial Control and Planning Group
- Investment Banking Group
- Treasury Group
- Regulatory Division
- Corporate Banking Group
- Internal Sharia'h Audit Department
- Strategy and Digital Group
- Information Technology Group
- Corporate Governance
- Financial Securities Activities
- Fraud and Embezzlement
- Human Resources & General Services Group
- Risk Management Group
- AML, CFT and Tax Compliance Department
- Retail Banking Group
- Customer Complaints unit
- Legal Department
- Internal Audit Group
- Confidentiality of Customer Information
- Entity Wide Control Environment
- Operations Group
- The special assignment of the review and Archive unit regarding the Housing financing portfolio.

Our examination has been carried out as per the requirements of the Central Bank of Kuwait (CBK) circular dated 14 January 2020 considering the requirements contained in the Manual of General Directives issued by the CBK on 15 June 2003, Pillar IV of corporate governance instructions in respect of risk management and internal controls issued by the CBK on 20 June 2012 and its amendments on 10 September 2019, instructions dated 14 May 2019 concerning anti money laundering and combating financing of terrorism and the related instructions,

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instructions dated 9 February 2012 regarding confidentiality of customer's information and financial securities activities of the Bank and activities and instructions regarding internal controls with respect to prevention and reporting of fraud and embezzlement cases and the letter from the Central Bank of Kuwait dated 26 April 2020 regarding the request of assigning an external auditor to express an opinion on the adequacy of the procedures in the review and archive unit.

As members of the Board of Directors of the Bank, you are responsible for establishing and maintaining adequate accounting and other records and internal control systems, taking into consideration the expected benefits and relative costs of establishing such systems and complying with the requirements contained in the CBK instructions mentioned in the above paragraph. The objective of this report is to provide reasonable, but not absolute, assurance on the extent to which the adopted procedures and systems are adequate to safeguard the assets against loss from unauthorized use or disposition; that key risks are properly monitored and evaluated; that transactions are executed in accordance with established authorization procedures and are recorded properly; and to enable you to conduct the business in a prudent manner.

Because of inherent limitations in internal control system, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the systems to future periods is subject to the risk that management information and control procedures may become inadequate because of changes in conditions or that the degree of compliance with those procedures may deteriorate.

With the exception of the matters set out in the accompanying report, and having regard to the nature and volumes of the Bank's operations, during the year ended 31 December 2019, and the materiality and risk rating of our findings, we report that:

a) The accounting and other records and internal control systems of the Bank were established and maintained in accordance with the requirements of the Manual of General Directives issued by the CBK on 15 June 2003 and letter issued by CBK on 14 January 2020,

b) The findings raised in the examination and assessment of the internal controls do not have a material impact on the fair presentation of the financial statements of the Bank for the year ended 31 December 2019, and

c) The actions taken by the Bank to address the findings referred in the report are satisfactory.

Yours faithfully,

Qais M. Al Nisf
License No. 38 "A"
BDO Al Nisf & Partners

CAPITAL ADEQUACY DISCLOSURES

PUBLIC DISCLOSURE REQUIREMENTS (BASEL III)

The qualitative and quantitative public disclosures under this section have been prepared in accordance with the Central Bank of Kuwait (CBK) Rules and Regulations concerning Capital Adequacy Standard (Basel III) for Islamic Banks licensed in the State of Kuwait, vide circular reference 2/RB/RBA/336/2014 dated June 24, 2014, Leverage Ratio Standard circular reference 2/RBA/343/2014 dated October 21, 2014, and Liquidity Coverage Ratio Standard circular reference 2/RBA/346/2014 dated December 23, 2014.

Disclosures related to Capital Adequacy Standards under Basel III are based on calculating the minimum capital required to cover credit and market risks using the Standardized Approach, and the minimum capital required to cover operational risk using the Basic Indicator Approach.

FIRST: BANK STRUCTURE

Warba Bank K.S.C.P. (the "Bank") is engaged in providing Islamic banking, finance and investment services that comply with Islamic Shari'a to various customer and industry segments.

SECOND: CAPITAL STRUCTURE

The Bank's regulatory capital comprises:

- Equity Tier 1 (CET1) which demonstrates the Bank's underlying strength and includes share capital, reserves, and share premium according to applicable rules and regulations.
- Additional Tier 1 (AT1) which comprises of the Tier 1 Perpetual Sukuk issued by the bank.
- Tier 2 Supplementary Capital which comprises of the allowed portion of general provisions (1.25% of the risk weighted assets).

The Bank's capital does not include either structured instruments or complex equity instruments.

As at 31 December 2020, Tier 1 "Core Capital" amounted to KD 290,820 thousand (2019: KD 294,360 thousand), and Tier 2 "Supplementary Capital" amounted to KD 21,592 thousand (2019: KD 20,098 thousand) as detailed below:

Capital Structure	2020 (KD'000)	2019 (KD'000)
Tier (1) Capital		
A Common Equity Tier 1 (CET1)		
1- Directly issued qualifying common share capital plus related stocksurplus	**197,500**	190,000
2- Eligible Minority Interest in Consolidated Subsidiaries	**-**	-
3- Retained earnings (loss)	**10,714**	10,061
4- Other reserves	**6,243**	10,436
5- Proposed dividends	**-**	7,500
Total (A) CET1 before deductions	**214,457**	217,997
Deductions from CET1		
1- Treasury shares	**-**	-
2- Dividends (Declared but not incurred)	**-**	-
3- Goodwill	**-**	-
4- Other deductions	**-**	-
Total (A) CET1 after deductions	**214,457**	217,997
B Additional Tier 1 (AT1)	**76,363**	76,363
Deduction from AT1	**-**	-
Total (B) AT1 after deductions	**76,363**	76,363
Total (A+B) Tier 1 after Deductions	**290,820**	294,360
Tier (2) Supplementary Capital		
1- Capital Eligible as T2	**-**	-
2- General provisions	**21,592**	20,098
Total Tier (2) Supplementary Capital before deductions	**21,592**	20,098
Deduction from Tier (2) Supplementary Capital	**-**	-
Total Tier (2) Supplementary Capital after deductions	**21,592**	20,098
	-	-
Total Available Capital (Tier 1 & Tier 2) before adjustments	**312,412**	314,458
Other Adjustments	**-**	-
Total Available Capital (Tier 1 & Tier 2) after adjustments	**312,412**	314,458

As at 31 December 2020, Profit Equalization Reserve and Investment Risk Reserve amounted to KD Nil (2019: KD Nil).

WARBA BANK

1. Common Disclosures Template

The common disclosure template demonstrated below is presented with the objective of disclosing a detailed breakdown of the Bank's regulatory capital in a consistent and clear format, thus enhancing the consistency and comparability of the disclosed elements of capital between banks and across jurisdictions.

Item		2020 (KD'000)	2019 (KD'000)
	Common Equity Tier 1 capital: instruments and reserves		
1	Directly issued qualifying common share capital plus related stock surplus	**190,000**	190,000
2	Retained earnings	**10,061**	10,061
3	Accumulated other comprehensive income (and other reserves)	**10,436**	10,436
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)	**-**	-
5	Common share capital issued by subsidiaries and held by third parties minority interest)	**-**	-
6	Proposed dividends	**-**	7,500
7	**Common Equity Tier 1 capital before regulatory adjustments**	**214,457**	217,997
	Common Equity Tier 1 capital: regulatory adjustments		
8	Prudential valuation adjustments	**-**	-
9	Goodwill (net of related tax liability)	**-**	-
10	Other intangibles (net of related tax liability)	**-**	-
11	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	**-**	-
12	Cash-flow hedge reserve	**-**	-
13	Shortfall of provisions to expected losses (based on the Internal Models Approach, if applied)	**-**	-
14	Taskeek gain on sale (as set out in para‌ 72 of these guidelines)	**-**	-
15	Gains and losses due to changes in own credit risk on fair valued liabilities	**-**	-
16	Defined-benefit pension fund net assets (para‌ 68)	**-**	-
17	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	**-**	-
18	Reciprocal cross-holdings in common equity of banks, FIs, and insurance entities	**-**	-
19	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold of bank's CET1 capital)	**-**	-
20	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold of bank's CET1 capital)	**-**	-
21	Mortgage servicing rights (amount above 10% threshold of bank's CET1 capital)	**-**	-
22	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	**-**	-
23	Amount exceeding the 15% threshold	**-**	-
24	of which: significant investments in the common stock of financials	**-**	-
25	of which: mortgage servicing rights	**-**	-
26	of which: deferred tax assets arising from temporary differences	**-**	-
27	National specific regulatory adjustments	**-**	-

Item		2020 (KD'000)	2019 (KD'000)
28	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-	-
29	**Total regulatory adjustments to Common Equity Tier 1**	-	-
30	**Common Equity Tier 1 after the regulatory adjustments**	**214,457**	217,997
	Additional Tier 1 capital: instruments	-	-
31	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	**76,363**	76,363
32	of which: classified as equity under applicable accounting standards	**76,363**	76,363
33	of which: classified as liabilities under applicable accounting standards	-	-
34	Directly issued capital instruments subject to phase out from Additional Tier 1	-	-
35	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	-	-
36	of which: instruments issued by subsidiaries subject to phase-out	-	-
37	**Additional Tier 1 capital before regulatory adjustments**	**76,363**	76,363
	Additional Tier 1 capital: regulatory adjustments		
38	Investments in own Additional Tier 1 instruments	-	-
39	Reciprocal cross-holdings in Additional Tier 1 instruments	-	-
40	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-	-
41	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	-
42	National specific regulatory adjustments	-	-
43	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	-
44	**Total regulatory adjustments to Additional Tier 1 capital**	-	-
45	**Additional Tier 1 capital (AT1)**	**76,363**	76,363
46	**Tier 1 capital (T1 = CET1 + AT1)**	**290,820**	294,360
	Tier 2 capital: instruments and provisions		
47	Directly issued qualifying Tier 2 instruments plus related stock surplus	-	-
48	Directly issued capital instruments subject to phase-out from Tier 2	-	-
49	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	-	-
50	of which: instruments issued by subsidiaries subject to phase-out	-	-
51	General provisions included in Tier 2 capital	**21,592**	20,098
52	**Tier 2 capital before regulatory adjustments**	**21,592**	20,098
	Tier 2 capital: regulatory adjustments		
53	Investments in own Tier 2 instruments	-	-
54	Reciprocal cross-holdings in Tier 2 instruments	-	-
55	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10%of the issued common share capital of the entity (amount above the 10% threshold)	-	-

Item		2020 (KD'000)	2019 (KD'000)
56	Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	-
57	**National specific regulatory adjustments**	-	-
58	**Total regulatory adjustments to Tier 2 capital**	-	-
59	**Tier 2 capital (T2)**	21,592	20,098
60	**Total capital (TC = T1 + T2)**	312,412	314,458
61	**Total risk weighted assets (after applying 50% additional weighting)**	1,843,972	1,700,820
	Capital ratios and buffers		
62	**Common Equity Tier 1 (as a percentage of risk weighted assets)**	**11.63%**	12.82%
63	**Tier 1 (as a percentage of risk weighted assets)**	**15.77%**	17.31%
64	**Total capital (as a percentage of risk weighted assets)**	**16.94%**	18.49%
65	**Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus D-SIB buffer requirement, expressed as a percentage of risk weighted assets)**	**7.00%**	9.50%
66	of which: capital conservation buffer requirement	**2.50%**	2.50%
67	of which: bank specific countercyclical buffer requirement	**-**	-
68	of which: D-SIB buffer requirement	**-**	-
69	**Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)**	**3.80%**	5.00%
	National minimal		
70	**National Common Equity Tier 1 minimum ratio: 7.0%**	**129,078**	161,578
71	**National Tier 1 minimum ratio: 8.5%**	**156,738**	187,090
72	**National total capital minimum ratio excluding CCY and DSIB: 10.5%**	**193,617**	221,107
	Amounts below the thresholds for deduction (before risk weighting)		
73	Non-significant investments in the capital of other financials	**-**	-
74	Significant investments in the common stock of financials	**-**	-
75	Mortgage servicing rights (net of related tax liability)	**-**	-
76	Deferred tax assets arising from temporary differences (net of related tax liability)	**-**	-
	Applicable caps on the inclusion of provisions in Tier 2		
77	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)	**40,697**	29,647
78	Cap on inclusion of provisions in Tier 2 under standardized approach	**21,592**	20,098
79	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	**-**	-
80	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	**-**	-

2. Reconciliation Requirements

The Group has adopted a three-step approach for reconciliation of balance sheet items and the regulatory capital components as detailed in the instructions are as follows:

Step 1 & 2 of the reconciliation requirements:

31 December 2020

Step 1 & 2 of the reconciliation requirements	Balance sheet as in published financial statements (KD'000)	Under regulatory scope of consolidation (KD'000)	Reference
Assets			
Cash and balances with banks		110,999	110,999
Placements with banks and CBK		357,897	357,897
Financing receivables		2,497,366	2,497,366
of which maximum general provisions (netted above) capped for Tier 2 inclusion		**21,592**	**21,592**
Financial assets at fair value through profit or loss		90,929	90,929
Financial assets at fair value through other comprehensive income		237,050	237,050
Investments in joint ventures		108,240	108,240
Investment properties		30,039	30,039
Others assets		23,074	23,074
Property and equipment		19,660	19,660
Total Assets		**3,475,254**	**3,475,254**
Liabilities			
Due to banks		494,355	494,355
Depositors accounts		2,353,454	2,353,454
Issued Sukuk		302,429	302,429
Other liabilities		44,922	44,922
Total Liabilities		**3,195,160**	**3,195,160**
Equity			
Share Capital		157,500	157,500
Share Premium		40,000	40,000
Statutory Reserve		3,098	3,098
Retained Earnings		(12)	(12)
of which retained earnings eligible for (CET1)		**10,714**	**10,714**
Fair value reserve		1,676	1,676
Forex reserve		1,469	1,469
Proposed dividends		-	-
Equity attributable to Shareholders of the Bank		**203,731**	**203,731**
Perpetual Tier 1 Sukuk		76,363	76,363
Total Equity		**280,094**	**280,094**
Total Liabilities and Equity		**3,481,254**	**3,481,254**

Step 3 of the reconciliation requirements:

No.	Step 3 of Reconciliation requirements	Component of regulatory capital reported by bank (KD'000)	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation from Step 2
	Common Equity Tier 1 capital: instruments and reserves		
1	Share Capital	157,500	B
2	Share Premium	40,000	C
3	Statutory Reserve	3,098	D
4	Retained Earnings	10,714	E
5	Fair value reserve	1,676	F
6	Forex Reserve	1,469	G
7	Proposed dividends	-	H
8	**Common Equity Tier 1 capital (CET1)**	**214,457**	
	Additional Tier 1 capital: Instruments		
9	Perpetual Tier 1 Sukuk	76,363	I
10	**Additional Tier 1 capital**	**76,363**	
11	**Tier 1 Capital (Tier 1 = Common Tier 1 capital + Additional Tier 1 capital)**	290,820	
	Tier 2 Capital : Instruments and provisions		
12	Tier 2 Instruments	-	
13	General provisions included in Tier 2 capital	21,592	A
14	**Tier 2 Capital**	**21,592**	
15	**Total Capital (Total capital = Tier 1 + Tier 2)**	**312,412**	

THIRD: CAPITAL ADEQUACY RATIOS

The Bank actively manages its capital with the objective of maintaining adequate levels in order to cover all risks inherent in the business. The capital base is assessed to support the current and future growth of the business and the capital allocation is determined on the basis of financing and investments growth expectations for each business line.

The Bank is currently operating well above the minimum regulatory capital ratios, with ability to cover any eventuality and intervene at an early stage in situation of any stress. The business growth forecast is based on available capital, as allocated for different business lines to ensure that the Bank's internal capital targets are consistent with the approved Risk Appetite of the Bank to maximize shareholders' value on risk-adjusted basis.

1. Capital Adequacy Ratios are as follows:

2020

No.	Ratio Description	Total Required Capital (%)	Available Capital (%)
1.	Total Capital Adequacy Ratio	**10.50%**	**16.94%**
2.	Tier 1 Capital Adequacy Ratio	**8.50%**	**15.77%**
3.	CET1 Capital Adequacy Ratio	**7.00%**	**11.63%**

2019

No.	Ratio Description	Total Required Capital (%)	Available Capital (%)
1.	Total Capital Adequacy Ratio	13.00%	18.49%
2.	Tier 1 Capital Adequacy Ratio	11.00%	17.31%
3.	CET1 Capital Adequacy Ratio	9.50%	12.82%

The Bank ensures the fulfillment of Central Bank of Kuwait requirements in relation to capital adequacy.

2. Financial Leverage Ratio:

The below table depicts information regarding the calculation of the Financial Leverage Ratio, as per the applicable CBK regulations:

Item		2020 KD'000	2019 KD'000
	On-balance sheet exposures		
1	On-balance sheet items (excluding Sharia compliant hedging contracts, but including collaterals)	**3,515,151**	3,172,521
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	**-**	-
3	**Total on-balance sheet exposures (excluding Sharia compliant hedging contracts) (sum of lines 1 and 2)**	**3,515,151**	3,172,521
	Exposures to Sharia compliant hedging contracts		
4	Replacement cost associated with all Sharia compliant hedging contracts (i.e. net of eligible cash variation margin)	**-**	1,439
5	Add-on amounts for potential future exposures "PFE" associated with all Sharia compliant hedging contracts	**-**	113
6	Gross-up for the collateral of Sharia compliant hedging contracts provided where deducted from the balance sheet assets pursuant to the bank's accounting policy.	**-**	-
7	(Deductions of receivables assets for cash variation margin provided in with all Sharia compliant hedging contracts)	**-**	-
8	(Bank's exposures to exempted Central Counter Parties "CCP")	**-**	-
9	**Total exposures of Sharia compliant hedging contracts (sum of lines 4 to 8)**	**-**	1,552
	Other off-balance sheet exposures		
10	Off-balance sheet exposure (before any adjustment for credit conversion factors)	**861,019**	934,250
11	(Adjustments for conversion to credit equivalent amounts)	**(700,232)**	(841,304)
12	**Off-balance sheet items (sum of lines 10 and 11)**	**160,787**	92,946
	Capital and total exposures		
13	**Tier 1 capital**	**290,820**	294,360
14	**Total exposures (sum of lines 3, 9 and 12)**	**3,675,938**	3,267,019
	Leverage ratio		
15	**Leverage ratio (Tier 1 Capital (13)/total exposures (14))**	**7.91%**	9.01%

WARBA BANK

As stated above, the Bank's leverage ratio for the present period is 8.07% compared to 7.91% in the previous year. The decrease in the leverage ratio is mainly ascribed to the following:

- The increase in on-balance sheet and off-balance sheet exposures compared to the previous year, was due to the increase in the Bank's assets and letters of guarantee issued to the customers.

Summary comparison of accounting assets versus leverage ratio exposure measure:

Item		**2020 KD'000**	2019 KD'000
	On-balance sheet exposures		
1	Total assets as per published financial statements	**3,475,254**	3,143,683
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	**-**	-
3	Adjustment for fiduciary assets recognized on the balance sheet pursuant to the bank accounting policy but excluded from the gross leverage ratio exposure measure.	**-**	-
4	Exposures to Sharia compliant hedging contracts	**-**	1,552
5	Off-balance sheet exposures (i.e. equivalent credit amounts)	**160,787**	92,946
6	Other exposures	**33,897**	28,838
7	**Total exposures in calculation of leverage ratio (sum of the above items)**	**3,675,938**	3,267,019

FOURTH: RISK WEIGHTED ASSETS

1. Credit Risk

The minimum required capital for credit risk exposures as at 31 December 2020 was KD 179,365 thousand (31 December 2019: KD 207,774 thousand) as detailed below:

2020
(KD'000)

SN		Total Exposures	Net Exposures	Risk-Weighted Assets	Required Capital
1	Cash items	11,873	11,873	-	-
2	Claims on sovereigns	326,431	326,431	37,703	3,959
3	Claims on international organizations	-	-	-	-
4	Claims on public sector entities	106,521	106,521	8,478	890
5	Claims on multilateral development banks	82,359	82,359	-	-
6	Claims on banks	319,806	319,806	54,684	5,742
7	Claims on corporates	1,880,548	1,595,449	968,437	101,686
8	Regulatory retail exposure	449,363	442,883	261,694	27,478
9	Qualifying residential housing financing facilities	-	-	-	-
10	Past due exposures	24,644	24,165	8,578	901
11	Goods and commodities positions	596	596	353	37
12	Real estate investments	138,279	138,279	163,663	17,185
13	Investment and financing with customers	108,906	80,439	70,642	7,417
14	Sukuk and taskeek exposures	-	-	-	-
15	Claims on central counterparties.	-	-	-	-
16	Other exposures	226,612	226,612	134,008	14,070
Total		**3,675,938**	**3,355,413**	**1,708,240**	**179,365**

2019
(KD'000)

SN		Total Exposures	Net Exposures	Risk-Weighted Assets	Required Capital
1	Cash items	6,866	6,866	-	-
2	Claims on sovereigns	226,689	226,689	54,001	7,020
3	Claims on international organizations	-	-	-	-
4	Claims on public sector entities	101,844	101,844	11,208	1,457
5	Claims on multilateral development banks	78,507	78,507	-	-
6	Claims on banks	358,791	358,791	77,214	10,038
7	Claims on corporates	1,712,238	1,469,315	895,404	116,403
8	Regulatory retail exposure	399,025	390,069	233,021	30,293
9	Qualifying residential housing financing facilities	-	-	-	-
10	Past due exposures	11,854	6,676	2,432	316
11	Goods and commodities positions	745	745	446	58
12	Real estate investments	111,805	111,805	133,686	17,379

13	Investment and financing with customers	109,462	96,002	85,673	11,137
14	Sukuk and taskeek exposures	-	-	-	-
15	Claims on central counterparties.	-	-	-	-
16	Other exposures	149,193	149,193	105,177	13,673
Total		3,267,019	2,996,502	1,598,263	207,774

The minimum required capital for financing receivable as at 31 December 2020 was KD 136,288 thousand (31 December 2019: KD 154,986 thousand) as detailed below:

2020
(KD'000)

SN		**Total Exposures**	**Net Exposures**	**Risk-Weighted Assets**	**Required Capital**
1	Claims on sovereigns	**50,594**	**50,594**	**20,045**	**2,105**
2	Claims on public sector institutions	**96,353**	**96,353**	**2,535**	**266**
3	Claims on banks	**32,192**	**32,192**	**13,153**	**1,381**
4	Claims on corporates	**1,775,130**	**1,493,154**	**910,133**	**95,564**
5	Regulatory retail exposure	**449,229**	**442,883**	**269,704**	**28,319**
6	Qualifying residential housing financing facilities	**-**	**-**	**-**	**-**
7	Past due exposures	**24,644**	**24,175**	**8,846**	**929**
8	Investment and financing with customers	**108,906**	**80,439**	**73,558**	**7,724**
Total		**2,537,048**	**2,219,790**	**1,297,974**	**136,288**

2019
(KD'000)

SN		Total Exposures	Net Exposures	Risk-Weighted Assets	Required Capital
1	Claims on sovereigns	43,675	43,675	13,512	1,756
2	Claims on public sector institutions	88,936	88,936	3,613	470
3	Claims on banks	74,527	74,527	25,080	3,260
4	Claims on corporates	1,563,219	1,320,754	817,068	106,219
5	Regulatory retail exposure	398,879	389,923	241,249	31,362
6	Qualifying residential housing financing facilities	-	-	-	-
7	Past due exposures	11,839	6,674	2,587	336
8	Investment and financing with customers	109,462	96,002	89,097	11,583
Total		2,290,537	2,020,491	1,192,206	154,986

2. Market Risk

Market Risk-weighted exposure during the financial year 2020 amounted to KD 3,269 thousand (31 December 2019: KD 3,644 thousand), based on the standardized approach. The minimum required capital for market risk exposures amounts to KD 343 thousand (31 December 2019: KD 474 thousand).

3. Operational Risk

Operational Risk-weighted exposures calculated during the year 2020 amounted to KD 132,463 thousand (31 December 2019: KD 98,913 thousand) as per the Basic Indicator Approach. The minimum required capital for operational risk exposures amounts to KD 13,909 thousand (31 December 2019: KD 12,859 thousand).

FIFTH: RISK MANAGEMENT

Risk is inherent in all activities of a Bank and is managed through a process of ongoing identification, measurement, mitigation and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's financial health and continuing profitability. The Bank's business generates exposure to the following broad risk types from its financial transactions, use of financial instruments and its operations:

- Credit risk
- Market risk
- Liquidity Risk
- Operational risk

In addition, there are other risk areas that need to be monitored and controlled. The following presents information about the Bank's exposure to each of the risks, the Bank's objectives, framework of policies, models and quantification techniques, and processes for identifying, measuring, mitigating and managing risks, and the management of Bank's capital.

1. Risk Management Structure

The Board of Directors (the 'Board') has overall responsibility for the establishment and oversight of Bank's Risk Management function. The Board has established a Board Risk Committee (the 'BRC') comprising of members from the Board, to set the framework and monitor the Bank's Risks and Control-related requirements.

For specific types of risk such as credit, market and liquidity risks, the Board has further set up a Board Credit & Investment Committee (the 'BCIC'). At the management-level, the following committees are setup to assist the Board in fulfilling its responsibilities: the Executive Credit & Investment Committee (the 'ECIC'), Assets and Liabilities Management Committee (the 'ALCO'), and the Provisioning Committee.

An independent Risk Management Group (the 'RMG') headed by the Chief Risk Officer (the 'CRO') reports to the BRC, responsible for Enterprise-wide Risks to assist the Board and BRC in carrying out the risk oversight responsibility.

2. Risk Management Framework

The Board Risk Committee (the 'BRC') sets the framework and monitors the Risks and Control functions of the Bank. The Board has also established a Board Audit Committee (the 'BAC'), as required by Central Bank of Kuwait (the 'CBK'), which amongst other functions, is also required to monitor adherence with the Bank's Risk Management principles, policies and procedures, and for reviewing the adequacy of the Risk Management Framework.

The Executive Credit & Investment Committee (the 'ECIC') is the executive management level decision making body which is empowered to consider all financing and investment proposals for approval within its delegated authorities and/or recommendations to the Board Credit & Investment Committee (the 'BCIC') for final approval.

The Provisioning Committee is responsible for reviewing the entire financing and investment portfolio of the Bank on a periodic basis, to assess against actual delinquency or potential impairment and recommend the required level of provisioning in accordance with the Central Bank of Kuwait (CBK) regulations and financial/accounting standards.

The Assets and Liabilities Management Committee (the 'ALCO') is responsible for all matters related to the Bank's Balance Sheet management including all assets & liabilities, asset allocation, liability structure, funding diversification & cost-effectiveness, asset & liability maturity profile, net return margin, as well as all other issues related to capital adequacy with respect to market and liquidity risk management.

3. Risk Appetite

The Bank's risk appetite defines the maximum limit of risk that the Bank is willing to accept in relevant business categories to achieve an optimal balance of risk and return which will enable the achievement of its strategic objectives and is approved at the Board level. Any risk which is not in line with the Bank's stated risk appetite must be mitigated as a matter of priority to be within acceptable levels. The risk appetite is reviewed and recommended by the BRC to the Board of Directors for approval and periodic updates. This ensures the risk appetite statements are consistent with the Bank's strategy and business environment. Through the risk appetite statements, the Board communicates to management the acceptable level of risk for the Bank, determined in a manner which meets the objectives of shareholders, depositors and regulators. RMG aims to identify early warning signs of potential breaches to risk appetite limits; and is responsible for notifying the executive management of action required to mitigate or avoid such risks. The RMG is also responsible for escalating the matter to the BRC and the Board.

4. Risk Management Systems

In order to manage risks in a holistic manner and to measure risks on a consolidated basis, the Bank has a formal Risk Governance Framework, which provides detailed guidelines for a sound framework for Enterprise-wide Risk Management. The objectives of risk management are supported by various risk policies that are reviewed and updated regularly. The risk policies, in general, cater to detailed planning for various risks based on business strategies, past performance, future expectations, economic conditions, and internal as well as external events. The policies also require comprehensive analysis of a set of pre-determined parameters prior to introduction of new products or instruments. The policies have put in place internal limits (nominal as well as risk based) for continuous monitoring and ensuring that risks are maintained within the Bank's Risk Appetite. Periodical reporting of risks to various authorities including the ALCO, ECIC, BCIC and the BRC ensures that the Board and the Executive management are continuously kept aware of positions thereby enabling informed decision-making.

The Risk Management policies are established to identify, quantify, control, mitigate, and analyze the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and ensure adherence to the risk appetite limits. Risk Management policies and systems are subject to review regularly, on an ongoing basis, to reflect changes in economic environment, market conditions, products and services offered by the Bank.

5. Categories of Risks

The following are the main risks the Bank is exposed to:

5.1 Credit Risks

Credit risk is the risk of financial loss to the Bank if any counterparty to a financial obligation or instrument fails to or delays in meeting its contractual obligations, and arises principally from the Bank's receivables from Islamic financing activities, Ijara and Investments, etc. For risk management control purposes, the Bank considers and consolidates all elements of credit risk exposure such as individual obligor default risk, country risk and sector risk in one measure about riskiness of an exposure, based on models and inter-play of matrices.

Credit Risk Framework

The Bank's Board has approved Financing and Investment Policies for various business groups and investment asset types. The Board has also approved the Executive Credit & Investment Committee (the 'ECIC') Charter which is empowered for initial screening of proposals and approval within its delegated authorities. The Board has also constituted the Board Credit & Investment Committee (the 'BCIC') which by virtue of its Charter is the next level of authority which provides guiding principles and approves the various financing and investment proposals on behalf of the Board of the Bank. Risk Management Group provides independent opinion and assessment of risk for every financing and investment that is proposed and presented to the approving authorities for decision making.

In addition, the Bank endeavors to manage the credit exposure by obtaining security where appropriate and limiting the tenor of exposure or structures that are beneficial to the overall risk profile of the Bank's credit risk exposure.

Net Credit Exposures (Rated or Unrated)

2020
(KD'000)

SN	Description of Credit Risk Exposures	Total Exposures	Net Exposures	Risk-Weighted Assets
1	Cash item	**11,873**	**-**	**11,873**
2	Claims on sovereigns	**326,431**	**309,114**	**17,317**
3	Claims on international organizations	**-**	**-**	**-**
4	Claims on public sector entities	**106,521**	**-**	**106,521**
5	Claims on multilateral development banks	**82,359**	**82,359**	**-**
6	Claims on banks	**319,806**	**267,562**	**52,244**
7	Claims on corporates	**1,880,548**	**33,709**	**1,846,839**
8	Regulatory retail exposure	**449,363**	**-**	**449,363**
9	Qualifying residential housing financing facilities	**-**	**-**	**-**
10	Past due exposures	**24,644**	**-**	**24,644**
11	Goods and commodities positions	**596**	**-**	**596**
12	Real estate investments	**138,279**	**-**	**138,279**
13	Investment and financing with customers	**108,906**	**-**	**108,906**
14	Sukuk and taskeek exposures	**-**	**-**	**-**
15	Claims on central counterparties.	**-**	**-**	**-**
16	Other exposures	**226,612**	**-**	**226,612**
Total		**3,675,938**	**692,744**	**2,983,194**

2019
(KD'000)

SN	Description of Credit Risk Exposures	Total Exposures	Net Exposures	Risk-Weighted Assets
1	Cash item	6,866	-	6,866
2	Claims on sovereigns	226,689	222,209	4,480
3	Claims on international organizations	-	-	-
4	Claims on public sector entities	101,844	5,839	96,005
5	Claims on multilateral development banks	78,507	78,507	-
6	Claims on banks	358,791	320,078	38,713
7	Claims on corporates	1,712,238	78,666	1,633,572
8	Regulatory retail exposure	399,025	-	399,025
9	Qualifying residential housing financing facilities	-	-	-
10	Past due exposures	11,854	-	11,854
11	Goods and commodities positions	745	-	745
12	Real estate investments	111,805	-	111,805
13	Investment and financing with customers	109,462	-	109,462
14	Sukuk and taskeek exposures	-	-	-
15	Claims on central counterparties.	-	-	-
16	Other exposures	149,193	-	149,193
Total		3,267,019	705,299	2,561,720

Total Credit Risk Exposures (Self-Financed or Financed from Investment Accounts):

2020
(KD'000)

SN	Description of Credit Risk Exposures	Credit Risk Exposures	Self Financed	Financed From Investment Accounts
1	Cash item	**11,873**	**11,873**	**-**
2	Claims on sovereigns	**326,431**	**133,592**	**192,839**
3	Claims on international organizations	**-**	**-**	**-**
4	Claims on public sector entities	**106,521**	**19,554**	**86,967**
5	Claims on multilateral development banks	**82,359**	**15,119**	**67,240**
6	Claims on banks	**319,806**	**70,933**	**248,873**
7	Claims on corporates	**1,880,548**	**397,307**	**1,483,241**
8	Regulatory retail exposure	**449,363**	**82,494**	**366,869**
9	Qualifying residential housing financing facilities	**-**	**-**	**-**
10	Past due exposures	**24,644**	**4,523**	**20,121**
11	Goods and commodities positions	**596**	**109**	**487**
12	Real estate investments	**138,279**	**25,384**	**112,895**
13	Investment and financing with customers	**108,906**	**19,992**	**88,914**
14	Sukuk and taskeek exposures	**-**	**-**	**-**
15	Claims on central counterparties.	**-**	**-**	**-**
16	Other exposures	**226,612**	**79,617**	**146,995**
Total		**3,675,938**	**860,497**	**2,815,441**

2019
(KD'000)

SN	Description of Credit Risk Exposures	Credit Risk Exposures	Self Financed	Financed From Investment Accounts
1	Cash item	6,866	6,866	-
2	Claims on sovereigns	226,689	50,377	176,312
3	Claims on international organizations	-	-	-
4	Claims on public sector entities	101,844	19,932	81,912
5	Claims on multilateral development banks	78,507	15,365	63,142
6	Claims on banks	358,791	143,505	215,286
7	Claims on corporates	1,712,238	385,267	1,326,971
8	Regulatory retail exposure	399,025	78,099	320,926
9	Qualifying residential housing financing facilities	-	-	-
10	Past due exposures	11,854	2,332	9,522
11	Goods and commodities positions	745	146	599
12	Real estate investments	111,805	21,881	89,924
13	Investment and financing with customers	109,462	21,423	88,039
14	Sukuk and taskeek exposures	-	-	-
15	Claims on central counterparties.	-	-	-
16	Other exposures	149,193	80,262	68,931
Total		3,267,019	825,455	2,441,564

Average exposures (Self-Financed or Financed from Unrestricted Investment Accounts) on a quarterly basis:

2020
(KD'000)

SN	Description of Credit Risk Exposures	Average Credit Risk Exposures	Average Self Financed	Average Financed From Investment Accounts
1	Cash item	10,586	10,586	-
2	Claims on sovereigns	295,347	89,611	205,736
3	Claims on international organizations	-	-	-
4	Claims on public sector entities	108,050	20,454	87,596
5	Claims on multilateral development banks	84,477	15,998	68,479
6	Claims on banks	349,315	103,389	245,926
7	Claims on corporates	1,832,898	397,798	1,435,100
8	Regulatory retail exposure	418,970	78,963	340,007
9	Qualifying residential housing financing facilities	-	-	-
10	Past due exposures	30,424	5,916	24,508
11	Goods and commodities positions	1,293	261	1,032
12	Real estate investments	125,122	23,663	101,459
13	Investment and financing with customers	112,534	21,316	91,218
14	Sukuk and taskeek exposures	-	-	-
15	Claims on central counterparties.	-	-	-
16	Other exposures	235,619	101,625	133,994
Total		**3,604,635**	**869,580**	**2,735,055**

2019
(KD'000)

SN	Description of Credit Risk Exposures	Average Credit Risk Exposures	Average Self Financed	Average Financed From Investment Accounts
1	Cash item	6,374	6,374	-
2	Claims on sovereigns	265,483	75,978	189,505
3	Claims on international organizations	-	-	-
4	Claims on public sector entities	62,658	11,469	51,189
5	Claims on multilateral development banks	30,476	5,695	24,781
6	Claims on banks	400,423	161,745	238,678
7	Claims on corporates	1,528,776	320,848	1,207,928
8	Regulatory retail exposure	372,813	67,097	305,716
9	Qualifying residential housing financing facilities	-	-	-
10	Past due exposures	12,793	2,313	10,480
11	Goods and commodities positions	2,679	492	2,187
12	Real estate investments	100,535	18,106	82,429
13	Investment and financing with customers	75,943	13,769	62,174
14	Sukuk and taskeek exposures	-	-	-
15	Claims on central counterparties.	-	-	-
16	Other exposures	117,767	67,041	50,726
Total		2,976,720	750,927	2,225,793

Excess Risk Concentrations

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or exposed to similar economic environment that would cause their ability to meet contractual obligations and be similarly impacted by changes in economic, political and/or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Bank's performance to developments affecting similarly connected counterparties.

Geographical Distributions for Credit Risk Exposure

2020
(KD'000)

SN	Description of Credit Risk Exposures	MENA	North America	Europe	Asia	Others	Total
1	Cash item	11,873	-	-	-	-	11,873
2	Claims on sovereigns	313,738	2,154	9,269	1,270	-	326,431
3	Claims on international organizations	-	-	-	-	-	-
4	Claims on public sector entities	97,341	-	-	9,180	-	106,521
5	Claims on multilateral development banks	82,359	-	-	-	-	82,359
6	Claims on banks	303,712	3,467	9,871	2,756	-	319,806
7	Claims on corporates	1,822,869	30,921	14,237	12,521		1,880,548
8	Regulatory retail exposure	449,363	-	-	-	-	449,363
9	Qualifying residential housing financing facilities	-	-	-	-	-	-
10	Past due exposures	24,644	-	-	-	-	24,644
11	Goods and commodities positions	596	-	-	-	-	596
12	Real estate investments	18,886	90,303	29,090	-	-	138,279
13	Investment and financing with customers	104,312	4,594	-	-	-	108,906
14	Sukuk and taskeek exposures	-	-	-	-	-	-
15	Claims on central counterparties.	-	-	-	-	-	-
16	Other exposures	154,461	35,469	7,234	7,301	22,147	226,612
Total		3,384,154	166,908	69,701	33,028	22,147	3,675,938

2019
(KD'000)

SN	Description of Credit Risk Exposures	MENA	North America	Europe	Asia	Others	Total
1	Cash item	6,866	-	-	-	-	6,866
2	Claims on sovereigns	211,242	-	10,187	5,260	-	226,689
3	Claims on international organizations	-	-	-	-	-	-
4	Claims on public sector entities	90,156	-	-	11,688	-	101,844
5	Claims on multilateral development banks	78,507	-	-	-	-	78,507
6	Claims on banks	225,808	6,783	109,937	16,263	-	358,791
7	Claims on corporates	1,601,390	39,702	17,503	51,616	2,027	1,712,238
8	Regulatory retail exposure	399,025	-	-	-	-	399,025
9	Qualifying residential housing financing facilities	-	-	-	-	-	-
10	Past due exposures	11,854	-	-	-	-	11,854
11	Goods and commodities positions	745	-	-	-	-	745
12	Real estate investments	10,378	73,289	28,138	-	-	111,805
13	Investment and financing with customers	104,873	4,589	-	-	-	109,462
14	Sukuk and taskeek exposures	-	-	-	-	-	-
15	Claims on central counterparties.	-	-	-	-	-	-
16	Other exposures	113,725	28,337	7,131	-	-	149,193
Total		2,854,569	152,700	172,896	84,827	2,027	3,267,019

Maturities of total "Credit Risk" exposures

2020
(KD'000)

SN	Description of Credit Risk Exposures	Up to 3 months	3 to 12 months	Over 1 year	Total
1	Cash item	11,873	-	-	11,873
2	Claims on sovereigns	222,905	25,854	77,672	326,431
3	Claims on international organizations	-	-	-	-
4	Claims on public sector entities	73,780	22,573	10,168	106,521
5	Claims on multilateral development banks	7,600	1,519	73,240	82,359
6	Claims on banks	298,981	7,594	13,231	319,806
7	Claims on corporates	1,192,578	608,166	79,804	1,880,548
8	Regulatory retail exposure	3,626	7,155	438,582	449,363
9	Qualifying residential housing financing facilities	-	-	-	-
10	Past due exposures	24,644	-	-	24,644
11	Goods and commodities positions	-	596	-	596
12	Real estate investments	-	-	138,279	138,279
13	Investment and financing with customers	96,567	11,201	1,138	108,906
14	Sukuk and taskeek exposures	-	-	-	-
15	Claims on central counterparties.	-	-	-	-
16	Other exposures	4,728	2,034	219,850	226,612
Total		**1,937,282**	**686,692**	**1,051,964**	**3,675,938**

2019
(KD'000)

SN	Description of Credit Risk Exposures	Up to 3 months	3 to 12 months	Over 1 year	Total
1	Cash item	6,866	-	-	6,866
2	Claims on sovereigns	81,296	24,101	121,292	226,689
3	Claims on international organizations	-	-	-	-
4	Claims on public sector entities	17,803	82,821	1,220	101,844
5	Claims on multilateral development banks	-	-	78,507	78,507
6	Claims on banks	325,589	8,379	24,823	358,791
7	Claims on corporates	1,066,434	539,088	106,716	1,712,238
8	Regulatory retail exposure	3,780	6,593	388,652	399,025
9	Qualifying residential housing financing facilities	-	-	-	-
10	Past due exposures	11,854	-	-	11,854
11	Goods and commodities positions	-	745	-	745
12	Real estate investments	-	-	111,805	111,805
13	Investment and financing with customers	92,127	16,121	1,214	109,462
14	Sukuk and taskeek exposures	-	-	-	-
15	Claims on central counterparties.	-	-	-	-
16	Other exposures	17,936	2,878	128,379	149,193
Total		1,623,685	680,726	962,608	3,267,019

Main sectors of total Credit Risk exposures

2020
(KD'000)

SN	Description of Credit Risk Exposures	Manufacturing & Trade	Banks & Financial Institu-tions	Con-struction & Real Estate	Govern-ment	Others	Total
1	Cash item	-	-	-	-	11,873	11,873
2	Claims on sovereigns	-	-	-	275,837	50,594	326,431
3	Claims on international organizations	-	-	-	-	-	-
4	Claims on public sector entities	22,572	-	-	10,168	73,781	106,521
5	Claims on multilateral development banks	-	82,359	-	-	-	82,359
6	Claims on banks	-	319,806	-	-	-	319,806
7	Claims on corporates	461,123	99,688	1,031,999	-	287,738	1,880,548
8	Regulatory retail exposure	-	-	-	-	449,363	449,363
9	Qualifying residential housing financing facilities	-	-	-	-	-	-
10	Past due exposures	999	-	10,022	-	13,623	24,644
11	Goods and commodities positions	596	-	-	-	-	596
12	Real estate investments	-	-	138,279	-	-	138,279
13	Investment and financing with customers	-	-	38,636	-	70,270	108,906
14	Sukuk and taskeek exposures	-	-	-	-	-	-
15	Claims on central counterparties.	-	-	-	-	-	-
16	Other exposures	-	-	-	-	226,612	226,612
Total		**485,290**	**501,835**	**1,218,936**	**286,005**	**1,183,854**	**3,675,938**

2019
(KD'000)

SN	Description of Credit Risk Exposures	Manufacturing & Trade	Banks & Financial Institutions	Construc-tion & Real Estate	Govern-ment	Others	Total
1	Cash item	-	-	-	-	6,866	6,866
2	Claims on sovereigns	-	-	-	183,014	43,675	226,689
3	Claims on international organizations	-	-	-	-	-	-
4	Claims on public sector entities	27,659	-	-	12,908	61,277	101,844
5	Claims on multilateral development banks	-	78,507	-	-	-	78,507
6	Claims on banks	-	358,792	-	-	-	358,792
7	Claims on corporates	348,626	165,945	952,783	-	244,884	1,712,238
8	Regulatory retail exposure	-	-	-	-	398,879	398,879
9	Qualifying residential housing financing facilities	-	-	-	-	-	-
10	Past due exposures	1,000	-	10,022	-	832	11,854
11	Goods and commodities positions	745	-	-	-	-	745

SN	Description of Credit Risk Exposures	Manufacturing & Trade	Banks & Financial Institutions	Construc-tion & Real Estate	Govern-ment	Others	Total
12	Real estate investments	-	-	111,805	-	-	111,805
13	Investment and financing with customers	-	-	41,418	-	68,044	109,462
14	Sukuk and taskeek exposures	-	-	-	-	-	-
15	Claims on central counterparties.	-	-	-	-	-	-
16	Other exposures	-	-	-	-	151,171	151,171
Total		378,030	603,244	1,116,028	195,922	863,810	3,267,019

5.1.1 Irregular and past due credit facilities

The Bank complies with CBK instructions regarding the provisions required for credit risks by applying the requirements as per IFRS 9. With regard to the credit facilities/ financing portfolio, the Bank estimates the expected credit losses in accordance with IFRS 9 and complies with the relevant CBK regulations or as per the instructions issued by CBK regarding rules and regulations concerning classification of credit facilities and calculation of their provisions and method for treating the revenues resulting therefrom, whichever is greater.

Irregular and past due financing facilities exposures in accordance with standard portfolios:

On December 31, 2020, the value of the irregular financing facilities (impaired), including the Bank's accounts receivable, amounted to KD 30,795 thousand after excluding the deferred revenues and due profits (31 December 2019: KD 31,704 thousand) and KD 10,716 thousand (31 December 2019: KD 21,302 thousand) after excluding the acceptable collaterals as per the instructions of the Central Bank of Kuwait for the purpose of calculating the Capital Adequacy Ratio.

As of 31 December 2020, the Bank's provisions are KD 46,620 thousand including a general provision of KD 40,502 thousand (31 December 2019: KD 49,240 thousand including a general provision of KD 29,374).

Irregular and past due exposures as per standard portfolios:

2020
(KD'000)

SN	Description of Standard Portfolios	Impaired	Net Impaired after deducting acceptable guaran-tees	Specific Provision	Net Facilities	Past Due
1	Claims on banks	-	-	-	-	-
2	Claims on corporates	29,407	9,328	5,073	4,255	4,255
3	Regulatory retail exposures	1,388	1,388	1,045	343	343
4	Real estate investments	-	-	-	-	-
5	Investment and financing with customers	-	-	-	-	-
Total		**30,795**	**10,716**	**6,118**	**4,598**	**43,271**

2019
(KD'000)

SN	Description of Standard Portfolios	Impaired	Net Impaired after deducting acceptable guarantees	Specific Provision	Net Facilities	Past Due
1	Claims on banks	-	-	-	-	-
2	Claims on corporates	28,916	18,514	17,820	11,096	96,456
3	Regulatory retail exposures	2,788	2,788	2,046	742	13,086
4	Real estate investments	-	-	-	-	-
5	Investment and financing with customers	-	-	-	-	-
Total		31,704	21,302	19,866	11,838	109,542

Irregular and past due exposures as per geographical location:

2020
(KD'000)

SN	**Description of geographical location**	**Impaired**	**Net Impaired after deducting acceptable guaran-tees**	**Specific Provision**	**Net Facilities**	**Past Due**
1	MENA	**21,846**	**10,716**	**6,118**	**4,598**	**43,271**
2	Europe	**-**	**-**	**-**	**-**	**-**
3	Asia	**-**	**-**	**-**	**-**	**-**
4	Rest of the World	**8,949**	**-**	**-**	**-**	**-**
Total		**30,795**	**10,716**	**6,118**	**4,598**	**43,271**

2019
(KD'000)

SN	Description of geographical location	Impaired	Net Impaired after deducting acceptable guarantees	Specific Provision	Net Facilities	Past Due
1	MENA	31,704	-	19,866	11,838	109,542
2	Europe	-	-	-	-	-
3	Asia	-	-	-	-	-
4	Rest of the World	-	-	-	-	-
Total		31,704	-	19,866	11,838	109,542

Irregular and past due exposures by industrial sector:

2020
(KD'000)

SN	Description of Industrial Sector	Impaired	Net Impaired after deducting acceptable guarantees	Specific Provision	Net Facilities	Past Due
1	Manufacturing & Trade	**575**	**103**	**21**	**83**	**2,288**
2	Banks and financial institutions	**-**		**-**	**-**	**1,003**
3	Constructions and real estates	**27,030**	**7,675**	**3,513**	**4,162**	**25,265**
4	Others	**3,190**	**2,938**	**2,584**	**353**	**14,715**
Total		**30,765**	**10,716**	**6,118**	**4,598**	**43,271**

2019
(KD'000)

SN	Description of Industrial Sector	Impaired	Net Impaired after deducting acceptable guarantees	Specific Provision	Net Facilities	Past Due
1	Manufacturing & Trade			4,964	1,000	5,957
2	Banks and financial institutions	-		-	-	-
3	Constructions and real estates	20,602		10,794	10,022	73,071
4	Others	5,138		4,108	816	30,514
Total		31,704		19,866	11,838	109,542

Aging of Irregular and past due exposures:

2020
(KD'000)

SN	Description of Irregular and past due exposures	Up to 3 months	From 3 months to 6 months	From 6 months to 12 months	More than 1 Year	Total
1	Impaired	**-**	**5,179**	**2,525**	**23,091**	**30,795**
2	Past Due	**43,271**	**-**	**-**	**-**	**43,271**
Total		**43,271**	**5,179**	**2,525**	**23,091**	**74,066**

2019
(KD'000)

SN	Description of Irregular and past due exposures	Up to 3 months	From 3 months to 6 months	From 6 months to 12 months	More than 1 Year	Total
1	Impaired	-	3,737	754	27,213	31,704
2	Past Due	109,542	-	-	-	109,542
Total		109,542	3,737	754	27,213	141,246

General Provisions Balance:

SN	Distribution of General Provisions to credit risk exposures	2020 (KD'000)	2019 (KD'000)
1	Claims on sovereigns	**-**	-
2	Claims on public sector institutions	**969**	889
3	Claims on banks	**377**	624
4	Claims on corporates	**33,970**	23,967
5	Regulatory retail exposures	**4,363**	2,799
6	Real estate investments	**-**	-
7	Investment and financing with customers	**823**	1,095
Total		**40,502**	29,374

SN	Distribution of General Provisions to geographical location	2020 (KD'000)	2019 (KD'000)
1	MENA	**39,963**	28,359
2	Europe	**179**	383
3	Asia	**120**	331
4	Rest of the World	**240**	301
Total		**40,502**	29,374

5.1.2 Applicable Risk Mitigation Methods

The Credit Policy of the Bank lays down guidelines for collateral valuation and management which includes, haircuts, minimum coverage requirement for different categories of collateral, revaluation, frequency and basis of revaluation, documentation, takaful, custodial requirements etc. According to the credit policy, the frequency of revaluing the collateral depends on the type of collateral. Specifically, daily revaluation is required for share collateral and also where the collateral is in a different currency than the exposure. This process is handled by a department independent of the business groups to ensure objectivity.

Acceptable collateral includes cash, bank guarantees, shares, real estate etc. subject to specific conditions on eligibility, margin requirements etc., laid down in the credit policy. The credit risk mitigation used for capital adequacy computation includes collateral in the form of cash and shares as well as guarantees in accordance with the CBK's rules and regulations concerning capital adequacy standard.

WARBA BANK

Credit Risk Exposures, Eligible Collaterals and Banking Guarantees

2020
(KD'000)

SN	Description of Credit Risk Exposure	Total Credit Exposure	Eligible Collaterals	Banking Guarantees
1	Cash item	**11,873**	-	-
2	Claims on sovereigns	**326,431**	-	-
3	Claims on international organizations	-	-	-
4	Claims on public sector entities	**106,521**	-	-
5	Claims on multilateral development banks	**82,359**	-	-
6	Claims on banks	**319,806**	-	-
7	Claims on corporates	**1,880,548**	**285,099**	-
8	Regulatory retail exposure	**449,363**	**6,480**	-
9	Qualifying residential housing financing facilities	-	-	-
10	Past due exposures	**24,644**	**479**	-
11	Goods and commodities positions	**596**	-	-
12	Real estate investments	**138,279**	-	-
13	Investment and financing with customers	**108,906**	**28,467**	-
14	Sukuk and taskeek exposures	-	-	-
15	Claims on central counterparties.	-	-	-
16	Other exposures	**226,612**	-	-
Total		**3,675,938**	**320,525**	-

2019
(KD'000)

SN	Description of Credit Risk Exposure	Total Credit Exposure	Eligible Collaterals	Banking Guarantees
1	Cash item	6,866	-	-
2	Claims on sovereigns	226,689	-	-
3	Claims on international organizations	-	-	-
4	Claims on public sector entities	101,844	-	-
5	Claims on multilateral development banks	78,507	-	-
6	Claims on banks	358,791	-	-
7	Claims on corporates	1,712,238	242,924	-
8	Regulatory retail exposure	399,025	8,956	-
9	Qualifying residential housing financing facilities	-	-	-
10	Past due exposures	11,854	5,177	-
11	Goods and commodities positions	745	-	-
12	Real estate investments	111,805	-	-
13	Investment and financing with customers	109,462	13,460	-
14	Sukuk and taskeek exposures	-	-	-
15	Claims on central counterparties.	-	-	-
16	Other exposures	149,193	-	-
Total		3,675,938	270,517	-

5.2 Market Risks

Market risk emanates from the process of fair value or future cash flows of a financial instrument which fluctuates because of changes in market prices. Market risk may arise from open positions in profit rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market or prices such as profit rates, credit spreads, foreign exchange rates and equity prices.

The Risk Management Group is responsible for development of detailed Market Risk Management policies and for the periodic review of their implementation, while it is the responsibility of Investment Banking Group and Treasury to proactively manage and control market risk generated from various market positions in investments, financial instruments and over-the-counter deals.

5.2.1 Market Risk Framework

The Bank uses market practice for the valuation of its positions and receives regular market information in order to regulate market risk.

The market risk framework comprises of the following elements:

- Limits for all market risk parameters and regular limits monitoring to ensure that Bank does not exceed aggregate risk and concentration parameters set by the CBK limits and internal limits.
- Mark-to-market valuation based on independently published market data, and continuous review of all open positions.

The policies and procedures and the market risk limits are periodically set and reviewed to ensure the implementation of the Bank's market risk appetite. The Bank is required to comply with the guidelines and regulations of the Central Bank of Kuwait, in addition to its internal policies and procedures.

5.3 Liquidity Risks

Liquidity Risk is the risk of the Bank being unable to meet its financial liabilities when they fall due. Liquidity risk management is one of the vital components of the management of day-to-day banking business. In order to meet any eventuality, the Bank's liquidity strategy is to maintain a healthy level of liquid assets in the form of cash, cash equivalents and readily marketable securities. The Bank continuously monitors liquidity risk by measuring the maturity profile of its assets and liabilities on a daily basis and the liquidity gaps position is reviewed by Asset Liability Management Committee (ALCO) on a monthly basis. Furthermore, the Liquidity Coverage Ratio, Net Stable Funding Ratio, liquidity reserve position and the ratio of financing facilities to eligible deposits are monitored on a daily basis.

The Bank has in place a Contingency Funding Plan (CFP) which will be used as a blueprint of the action plan to be followed during any liquidity contingencies. The CFP establishes a framework which improves the Bank's preparedness to handle liquidity stress as it emerges due to systemic or non-systemic situations. It identifies trigger events that could potentially cause a liquidity crisis, details the actions to be taken to manage the crisis, and also lays down the administrative structure and responsibilities to ensure accountability in handling an emergency. The CFP supplements the existing Liquidity Risk Policy of the Bank and will be operative only in case of an adverse/stress liquidity situation, actual or perceived.

A- Short-term assets to short-term liabilities ratio as of 31 December 2020 is 94% (31 December 2019: 90%) calculated as follows:

SN	Distribution of General Provisions to geographical location	2020	2019
1	Current assets (KD '000)	**2,554,100**	2,247,608
2	Current liabilities (KD '000)	**2,724,680**	2,500,612
Current ratio		**94%**	90%

WARBA BANK

B- Maturity analysis of various categories of funding (current account, unrestricted investment account and restricted investment account) are as follows:

2020
(KD'000)

SN	Categories of funding	Up to 3 months	3 to 12 months	Over 1 year	Total
1	Current account	**195,897**	**-**	**-**	**195,897**
2	Unrestricted investment account	**1,590,842**	**902,007**	**152,615**	**2,645,464**
3	Restricted investment account	**-**	**-**	**-**	**-**
4	Other Deposits	**6,448**	**-**	**-**	**6,448**
Total		**1,793,187**	**902,007**	**152,615**	**2,847,809**

2019
(KD'000)

SN	Categories of funding	Up to 3 months	3 to 12 months	Over 1 year	Total
1	Current account	126,751	-	-	126,751
2	Unrestricted investment account	1,293,547	1,042,408	187,889	2,523,844
3	Restricted investment account	-	-	-	-
4	Other Deposits	8,519	-	-	8,519
Total		1,428,817	1,042,408	187,889	2,659,114

5.3.1 Liquidity Coverage Ratio Disclosure

The qualitative and quantitative public disclosures under this section have been prepared in accordance with the Central Bank of Kuwait (CBK) Rules and Regulations concerning Liquidity Coverage Ratio for Islamic Banks licensed in the State of Kuwait, vide circular reference (2/IBS/346/2014) dated 23/12/2014.

Qualitative disclosure on LCR

The Liquidity Coverage Ratio (LCR) is a global standard for assessing bank liquidity. It aims to ensure that a bank has adequate unencumbered High Quality Liquid Assets (HQLA) that can be converted into cash easily and immediately to meet its liquidity needs for a 30 calendar day liquidity stress scenario.

LCR has been defined as: $\dfrac{\text{Stock of high quality liquid assets (HQLAs)}}{\text{Total net cash outflows over the next 30 calendar days}} \geq 100\ \%$

Liquid assets comprise of high quality assets that can be readily sold or used as collateral to obtain funds in a range of stress scenarios. There are two categories of assets included in the stock of HQLAs, viz. Level 1 and Level 2 assets. Level 1 assets are with 0% haircut while Level 2A assets are with a minimum 15% haircut and Level 2B Assets, with a minimum 50% haircut.

The total net cash outflows is the total expected cash outflows minus total expected cash inflows for the upcoming 30 calendar days. Total expected cash outflows are calculated by multiplying the outstanding balances of various categories or types of liabilities and off balance sheet commitments by the rates at which they are expected to run off or be drawn down. Total expected cash inflows are calculated by multiplying the outstanding balances of various categories of contractual receivables by the rates at which they are expected to flow in up to an aggregate cap of 75% of total expected cash outflows.

The Bank's focus has been to ensure diversified funding sources in addition to its core deposit base. The Treasury of the Bank manages liquidity by constant monitoring of future cash flows and liquidity needs. This incorporates an assessment of expected cash flows and the availability of high quality assets which could be used to secure additional funding if required. The bank also conducts stress tests to assess impact of stress on liquidity under various scenarios. Furthermore the bank has established a Contingency Funding Plan to manage liquidity during stressed conditions.

The average HQLA for the quarter ended 31 December 2020 was KD 334 Million of which Central Bank reserves constituted about 53%. Average cash outflows over a 30-day horizon amounted to KD 463 Million while average inflows from assets were KD 243 Million.

Bank's LCR of 152% (based on average of last three months' position) was above the minimum 80% prescribed by CBK for 2020. Management of liquidity is centrally managed through the Treasury within the bank. The Bank has sufficient liquidity sources for outflows and management is of the view that we are adequately liquid as required by LCR regulations. The Asset and Liability Management Committee (ALCO) of the Bank is responsible for oversight of liquidity management and review of positions on monthly basis and/or on need basis based on systemic risks.

Quantitative information on Liquidity coverage ratio (LCR) is given below:

LCR common disclosure template for the quarter ending on 31 December 2020

		"value in KD'000"	
Item	**Description**	**Value before applying inflows rates (average)***	**Value after applying inflows rates (average)***
	On-balance sheet exposures		
1	Total HQLA (before adjustments)		**334,558**
	Cash Outflows		
2	Retail deposits and small business	538,974	98,573
3	• Stable deposits		
4	• Less stable deposits	538,974	98,573
5	Unsecured wholesale funding excluding the deposits of small business customers:	638,724	337,603
6	• Operational deposits		
7	• Non-operational deposits (other unsecured commitments)	638,724	337,603
8	Secured Funding		
9	Other cash outflows, including:		
10	• Resulting from Shari'ah compliant hedging contracts		
11	• Resulting from assets-backed sukuk and other structured funding instruments		
12	• Binding credit and liquidity facilities		
13	Other contingent funding obligations	**533,990**	**26,700**
14	Other contractual cash outflows obligations	-	-
15	**Total Cash Outflows**		**462,875**
	Cash Inflows		
16			
17	Inflows from fully performing exposures (as per the counterparties)	247,589	243,196
18	Other cash Inflows		
19	**Total Cash Inflows**	**247,589**	**243,196**
	Liquidity Coverage Ratio (LCR)		
20	Total HQLA (after adjustments)		334,558
21	Net Cash Outflows		219,679
22	**LCR**		**152%**

*Simple Average for all days of the reported quarter.

WARBA BANK

5.3.2 Net Stable Funds Ratio

The qualitative and quantitative public disclosures under this section have been prepared in accordance with the Central Bank of Kuwait (CBK) Rules and Regulations concerning Net Stable Funds Ratio for Islamic Banks licensed in the State of Kuwait, vide circular reference (2/IBS/357/2015) dated 25/10/2015.

Qualitative disclosure on NSFR

The purpose of the Net Stable Funding Ratio ("NSFR") is to ensure that banks hold a minimum amount of stable funding based on the liquidity characteristics of their assets and activities over a one year horizon. The objective is to reduce maturity mismatches between the asset and liability items on the balance sheet and thereby reduce funding risk.
The minimum requirement on NSFR is defined as follows:

$$\frac{\text{Available Amount of Stable Funding}}{\text{Required Amount of Stable Funding}}$$

Stable funding" is defined as those types and amounts of equity and liability financing expected to be reliable sources of funds over a one-year time horizon under conditions of extended stress. The amount of Available Stable Funding (ASF) is measured based on the broad characteristics of the relative stability of the bank's funding sources, including the contractual maturity of its liabilities and the differences in the likelihood of different types of funding providers to withdraw their funding. The amount of Required Stable Funding (RSF) is measured based on the broad characteristics of the liquidity risk profile of the bank's assets and Off Balance Sheet exposures. Assets that are more liquid and more readily available to act as a source of extended liquidity in the stressed environment identified above receive lower RSF factors (and require less stable funding) than assets considered less liquid in such circumstances and, therefore, require more stable funding.

Warba Bank's strategy has been to ensure that there is adequate available stable funding to match its required stable funding at all times. In ensuring this the Bank has focused on increasing its funding from long term sources.

As of 31 December 2020 the bank's NSFR was at 115% compared to the minimum requirement of 80%. The total ASF after assigning weights (ASF Factors) was KD 2,172 Million while the RSF after applying weights was KD 1,890 Million.

NSFR common disclosure template as at 31 December 2020

		Unweighted Values (i.e. before applying relevant factors)				
Sr.	**Item**	**No specified maturity**	**Less than 6 months**	**More than 6 months and less than one year**	**Over one year**	**Total weighted value**
	Available Stable Funding (ASF):					
1	Capital					
2	Regulatory Capital	312,412	-	-	-	312,412
3	Other Capital Instruments	-	-	-	-	-
4	Retail deposits and deposits and investment accounts from small business customers:					
5	Stable deposits	-	-	-	-	-
6	Less stable deposits	-	486,968	42,174	16,025	492,255
7	Wholesale funding:					
8	Operational deposits and investment accounts	-	-	-	-	-
9	Other wholesale funding	-	1,785,795	380,257	439,017	1,367,753
10	Other liabilities:					
11	NSFR Shariah-compliant hedging contract liabilities	-	-	-	-	-
12	All other liabilities not included in the above categories	44,922	27,477	-	-	-
13	**Total ASF**	**-**	**-**	**-**	**-**	**2,172,420**
	Required Stable Funding (RSF):					
14	Total NSFR Shariah-compliant high-quality liquid assets (HQLA)	353,774	-	-	-	15,511
15	Deposits and investment accounts held at other financial institutions for operational purposes	-	-	-	-	-
16	Performing financing and securities:					
17	Performing financing to financial institutions secured by Level 1 HQLA	-	-	-	-	-
18	Performing financing to financial institutions secured by non-Level 1 HQLA and unsecured performing financing to financial institutions	8,591	356,345	-	-	53,452
19	Performing financing to non- financial corporate clients, loans to retail and small business customers, and financing to sovereigns, central banks and PSEs, of which:	-	1,705,466	258,135	444,562	4,426,363
20	- With a risk weight of less than or equal to 35% as per the Capital Adequacy Ratio – Basel 3 guidelines	-	-	-	-	-
21	Performing residential financing, of which:	-	-	-	-	-
22	- With a risk weight of less than or equal to 35% under the CBK Capital Adequacy Ratio – Basel III Guidelines	-	-	-	-	-

		Unweighted Values (i.e. before applying relevant factors)				
Sr.	Item	No specified maturity	Less than 6 months	More than 6 months and less than one year	Over one year	Total weighted value
23	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	-	-	-	60,079	51,067
24	**Other assets:**					
25	Physical traded commodities, including gold	-	-		-	-
26	Assets posted as initial margin for Shari'a-compliant hedging contracts and contributions to default funds of CCPs	-	-		-	-
27	NSFR Shari'a-compliant hedging contract assets	-	-		-	-
28	NSFR Shari'a-compliant hedging contract liabilities before deduction of variation margin posted	-	-		-	-
29	All other assets not included in the above categories	302,125	36,666		10,685	317,400
30	Off Balance Sheet Items	351,454	75,254		-	25,893
31	**Total RSF**	**-**	**-**		**-**	**1,889.686**
32	**NSFR (%)**	**-**	**-**		**-**	**115%**

5.4 Profit Rate Risk

Profit rate risk arises from the changes in profit rates affecting future cash flows or the fair value of the underlying financial exposure or instrument. The Bank is susceptible to profit rate risk as value of Bank's fixed income investments and/or return on financing are inversely related to rising rates. Moreover, change in profit rates might also impact Bank's net earnings or earnings spread.

The Bank conducts stress testing and scenario analyses regularly to manage profit rate risk inherent in the balance sheet. Earnings-at-Risk analysis is conducted monthly, to determine the impact of changes in the cost of funds and yield on assets on profitability. Such analysis is also monitored by the senior management of the Bank through the Asset and Liability Management Committee (ALCO).

2020
(KD'000)

Impact of 25 bps move upwards	**Upto 7 Days**	**7 Days to 1 Month**	**1 to 3 months**	**3 to 6 months**	**6 months to 1 Year**	**Total Impact**
Assets	**709**	**1,181**	**1,974**	**721**	**151**	**4,736**
Liabilities	**(285)**	**(1,225)**	**(1,509)**	**(706)**	**(306)**	**(4,031)**
Net Impact	**424**	**(44)**	**465**	**15**	**(155)**	**705**

2020
(KD'000)

Impact of 25 bps move downwards	**Upto 7 Days**	**7 Days to 1 Month**	**1 to 3 months**	**3 to 6 months**	**6 months to 1 Year**	**Total Impact**
Assets	**(709)**	**(1,181)**	**(1,974)**	**(721)**	**(151)**	**(4,736)**
Liabilities	**285**	**1,225**	**1,509**	**706**	**306**	**4,031**
Net Impact	**(424)**	**44**	**(465)**	**(15)**	**155**	**(705)**

2019
(KD'000)

Impact of 25 bps move upwards	Upto 7 Days	7 Days to 1 Month	1 to 3 months	3 to 6 months	6 months to 1 Year	Total Impact
Assets	676	999	1,674	912	66	4,328
Liabilities	(356)	(772)	(1,435)	(1,036)	(307)	(3,906)
Net Impact	321	226	239	(124)	(241)	421

2019
(KD'000)

Impact of 25 bps move downwards	Upto 7 Days	7 Days to 1 Month	1 to 3 months	3 to 6 months	6 months to 1 Year	Total Impact
Assets	**(676)**	(999)	(1,674)	(912)	(66)	(4,328)
Liabilities	356	772	1,435	1,036	307	3,906
Net Impact	(321)	(226)	(239)	124	241	(421)

5.5 Equity Risk in the Banking Book

As of 31 December 2020, the Bank's investments in equity positions other than sukuk amounted to KD 96,466 thousand (31 December 2019: KD 61,400 thousand) as detailed below:

Investments types	2020 KD'000	2019 KD'000
Quoted equity security	**15,580**	7,536
Unquoted equity security	**5,538**	5,505
Unquoted Portfolios and Funds	**61,208**	29,904
Other unquoted investments	**14,140**	18,455
Total	**96,466**	61,400

All equity investments are recorded at fair value.

During the year 2020, the Bank has recorded realized gain from sale of equity investments amounting to KD 2,100 thousand (2019: KD 23 thousand) in the income statement and unrealized loss from change in fair value of the quoted securities amounting to KD 33 thousand (31 December 2019: KD 13 thousand) in the other comprehensive income.

The minimum required capital for equity investment as at 31 December 2020 was KD 6,175 thousand (31 December 2019: KD 4,939 thousand).

5.6 Operational Risks

Operational Risk is defined as the risk of loss arising from inadequate or failed internal processes, systems failure, human error, or from external events including losses resulting from failure to comply with Islamic Shari'a regulations. When controls fail to perform, it can have legal or regulatory implications, or lead to financial or reputational loss.

5.6.1 Operational Risk Frameworks

The Bank has a set of policies approved by the Board of Directors that are applied to identify, assess and supervise operational risk in addition to other types of risk relating to the banking and financial activities of the Bank.

Operational risk is managed under the Risk Management Group. This Group ensures compliance with policies and procedures to identify, assess, supervise and monitor operational risk in accordance with the Bank's Risk Management Framework.

The Bank manages operational risks in line with the Central Bank of Kuwait instructions regarding "General Guidelines for Internal Control Systems" and directives regarding "Sound Practices for the Management and Control of Operational Risks". The Bank pays special attention to operational risks that may arise from non-compliance to Islamic Sharia principles and any possible failure in fiduciary responsibilities.

The Bank has established its Business Continuity Management (BCM) Policy to meet any internal or external failures and eventualities enabling smooth functioning of the Bank's operations. The Bank has established Disaster Recovery (DR) site for its IT infrastructure, which ensures that the operational risks do not adversely impact the Bank's business.

SIXTH: INVESTMENT ACCOUNTS

Warba Bank receives fund from depositors through various product structures that comply with Islamic Shari'a.

The Bank receives deposits from customers as part of unrestricted Wakala investment accounts either for limited or renewable periods. Funds are invested in financing and investing activities that will achieve a targeted return.

The Bank also receives funds from depositors through unrestricted Mudarabah Agreements, where depositors grant the bank (Mudarib) the right to invest these funds against a share in profit. The Mudarib would bear the loss in case of negligence or violation of any of the terms and conditions of the Mudaraba.

Pools of Assets in which the funds are invested is determined along with the relevant costs and revenues (costs or expenses included are those that are only directly related to general pool assets, meanwhile indirect expenses as General and Administrative expenses and staff cost are not charged), based on which the net profit is determined and shared between the bank and the depositors proportionately based on each contribution to the pools and the specificity of the contractual agreements with the depositors.

Profit percentage distributed to the profit-sharing investment accounts were as follows:

2020

SN	Account Category	Q1	Q2	Q3	Q4
1	Saving accounts	**1.27%**	**1.29%**	**1.29%**	**1.30%**

2019

SN	Account Category	Q1	Q2	Q3	Q4
1	Saving accounts	1.27%	1.29%	1.29%	1.30%

SEVENTH: SHARI'A REGULATIONS

Shari'a regulations are monitored and implemented by the Internal Shari'a Audit Department based on the decisions issued and approved by the Shari'a Supervisory Board of Warba Bank. The Internal Shari'a Audit Department supervises the implementation of such regulations on daily basis and answers any Shari'a related inquiries. Part of the activities of the Internal Shari'a Audit Department includes amongst other the review of policies, procedures and documentation including contracts, forms and agreements.

The Internal Shari'a Audit Department, conducted audit on the bank various operations based on an annual audit plan covering all the banks' departments upon which a report covering the findings is reported. The Shari'a Supervisory Board accordingly represents its report to the general assembly in its annual general assembly meeting.

Shari'a Board remuneration for the year ended 31 December 2020 amounted to KD 57 thousand (31 December 2019: KD 54 thousand).

EIGHTH: BANK'S REMUNERATION POLICIES

Board Nominations & Remunerations Committee

The Committee is chaired by Mr. Hamad Musaed Al Sayer, and includes as members Mr. Abdulaziz A. Al Jaber, Mr. Bader Khalid Al Shalfan and Mr. Musaab Omar Sulaiman Al Fulaij. The Committee helps the Board of Directors to decide on candidates' eligibility to membership of the Board of Directors, the candidate for the position of Chief Executive Officer, his deputies and assistants. The Committee also ensures effectiveness, sound implementation and commitment of the Nominations Policy and its consistency with the Bank›s objectives.

The Committee has hired an external Consultant to prepare a long-term incentive scheme for the senior management members.

The functions of the Board Nomination and Remuneration Committee with respect to the Compensation Policy (remunerations) include but are not limited to the following:

- Conduct periodic review of the policy or as recommended by the Board of Directors, give recommendations to the Board of Directors for amending/updating the policy.
- Conduct periodic assessment of the adequacy and effectiveness of the Remuneration Policy to ensure accomplishment of the declared objectives.
- Evaluate the practices under which remunerations are awarded against future revenues under uncertain timing and potentials.
- Make recommendations to the Board of Directors on the level and components of remunerations for the Chief Executive Officer, his assistants and similar executives level at the Bank to obtain Board approval;
- Identify a system for awarding remunerations in line with the principles of sound practices in respect of awarding remunerations;
- Work closely with the Board Risk Committee at the Bank and/or the Chief Risk Officer when assessing the proposed incentives in the Remuneration Scheme.
- Review the relevant policy and procedures periodically or at least when needed to ensure meeting the established goals in light of the information reviewed by the Committee about the progress of the Remuneration Scheme.

The number of the meetings held by the Board Nominations & Remunerations Committee during the year was 12 meetings, and the total remunerations paid to its members is KD 13 thousand for the year ending on 31 December 2020 (31 December 2019: KD 26 thousand).

Compensation according to various staff categories at Warba Bank:

1. Senior Management, this category includes the CEO, deputies, assistants and key executive managers whose appointment is subject to the approval of regulatory and supervisory bodies. Fixed wages for this category include basic salaries, benefits and allowances as well as end-of-service benefits.
2. Those responsible for Financial Control and Risk employees, the remunerations paid to this category include basic salaries, benefits, allowances and end of service benefits. This category includes Financial Control, Risk Management, Compliance Department, Internal Audit and AML Unit.
3. Material Risk Takers: Total compensations paid to this category include basic salaries, benefits and allowances as well as end-of-service benefits, and this category includes Top Management, Groups and Departments Heads, with financial authorities who delegate responsibilities to their staff members but still have the ultimate responsibility and accountability for the risks taken.

Warba Bank sets a Compensation Policy that provides fair, equitable and competitive compensation for its employees; encouraging and rewarding high performance; attracting individuals of the right caliber, qualifications and experience for the positions in the Bank; and providing flexibility to adapt to business market changes and requirements in a structured and standardized manner. Warba has developed systematic procedures for disbursement of financial rewards, taking into account the application of "the Claw Back" if necessary.

The Board of Directors provides effective oversight on remuneration systems and schemes and reviews salaries structures to ensure sound implementation in close connection with the BNRC whose duties include setting the Remuneration Policy and submitting it for Board approval, conducting periodic review of the policy and providing recommendations thereon so as to ensure proper remuneration payment.

The Remuneration Policy is in line with prudent risk taking. The bonuses must be linked to the bank›s medium and long-term performance, taking into account changing the components of the bonuses granted to employees to suit the long-term risks (risk time frame).

Job Assessment:

1. Job evaluation is used to determine the fair financial value of individual functions within the Bank.

2. The elements to be taken into consideration in the job evaluation process, using the IPE methodology , are based on the following factors:
- Impact on the organization
- Communication (internal and external)
- Knowledge
- Innovation
- Risk Environments

3. For each of these elements, the work is evaluated on a separate scale. The results of the evaluation of the Bank›s functions determine the function within the relevant grade structure in line with best practices.

4. The Total Rewards Unit is responsible for job evaluation based on accurate job descriptions

No employees were awarded remunerations on signing employment contracts (sign-on awards) during 2020. (2019: No employees were awarded remunerations on signing employment contracts (sign-on awards).

The table below shows the value of remuneration paid to Senior Management:

2020

SN	Total value of remuneration awards for the current fiscal year	Unrestricted (in KD)	Deferred (in KD)
	Fixed remuneration		
1	– Cash-based	**1,757,115**	-
2	– Shares and share-linked instruments	-	-
3	– Other	**68,401**	-
	Variable remuneration		
4	– Cash-based	-	**195,860**
5	– Shares and share-linked instruments	-	-
6	– Other	**49,692**	-
	Total	**1,875,208**	**195,860**

2019

SN	Total value of remuneration awards for the current fiscal year	Unrestricted (in KD)	Deferred (in KD)
	Fixed remuneration		
1	– Cash-based	1,613,449	-
2	– Shares and share-linked instruments	-	-
3	– Other	59,338	-
	Variable remuneration		
4	– Cash-based	616,744	153,761
5	– Shares and share-linked instruments	-	-
6	– Other	8,462	-
	Total	2,297,993	153,761

WARBA BANK

The table below shows the value of remuneration paid to material risk takers other than the Senior Management:

2020

SN	Total value of remuneration awards for the current fiscal year	Unrestricted (in KD)	Deferred (in KD)
	Fixed remuneration		
1	– Cash-based	**2,025,081**	**-**
2	– Shares and share-linked instruments	**-**	**-**
3	– Other	**93,079**	**-**
	Variable remuneration		
4	– Cash-based	**-**	**208,852**
5	– Shares and share-linked instruments	**-**	**-**
6	– Other	**67,502**	**-**
	Total	**2,185,662**	**208,852**

2019

SN	Total value of remuneration awards for the current fiscal year	Unrestricted (in KD)	Deferred (in KD)
	Fixed remuneration		
1	– Cash-based	1,410,658	-
2	– Shares and share-linked instruments	-	-
3	– Other	32,159	-
	Variable remuneration		
4	– Cash-based	548,667	148,123
5	– Shares and share-linked instruments	8,462	-
6	– Other	10,074	-
	Total	2,010,020	148,123

The table below shows the value of remuneration paid to the respective employee categories:

2020

SN	Employee Categories	Number of Employees in the category	End of service paid during the year (in KD)	"Unrestricted" salaries and remunerations paid during the year (in KD)
1	Senior Management	**16**	**61,825**	**1,875,208**
2	Material Risk Takers	**28**	**22,555**	**2,185,662**
3	Financial & Control Functions	**13**	**61,825**	**1,006,672**

2019

SN	Employee Categories	Number of Employees in the category	End of service paid during the year (in KD)	"Unrestricted" salaries and remunerations paid during the year (in KD)
1	Senior Management	13	-	2,297,993
2	Material Risk Takers	18	29,344	2,010,020
3	Financial & Control Functions	12	33,913	1,098,704

FINANCIAL STATEMENTS

Building a better working world

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF WARBA BANK K.S.C.P.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Warba Bank K.S.C.P. (the "Bank") and its subsidiaries (collectively "the Group"), which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the Central Bank of Kuwait (CBK) for use by the State of Kuwait.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISA"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.

NDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF
WARBA BANK K.S.C.P

Report on the audit of the consolidated Financial Statements

Credit losses on Islamic financing to customers

The recognition of credit losses on cash and non-cash Islamic financing to customers ("financing facilities") is the higher of Expected Credit Loss determined under International Financial Reporting Standard 9: Financial Instruments ("IFRS 9"), according to Central Bank of Kuwait (the "CBK") guidelines ("ECL"), and the provision required by the CBK rules on classification of financing facilities and calculation of their provision (the "CBK rules") as disclosed in the accounting policies in Note 2.5.1 and in Note 4 to the consolidated financial statements.

Recognition of ECL, is a complex accounting policy, which requires considerable judgement in its implementation. ECL is dependent on management's judgement in assessing the level of credit risk on initial recognition and significant increase in credit risk subsequently on the reporting date relative to its initial recognition, and classification into three stages. Furthermore, as disclosed by management, inherently judgmental modelling techniques are used to estimate ECLs which involves determining Probability of Default ("PD"), Loss Given Default ("LGD") and Exposure at Default ("EAD") which are modelled based on macroeconomic variables, and discounted to the reporting date. As disclosed in Note 25, the COVID-19 global pandemic significantly impacted management's determination of the ECL and required the application of heightened judgment. As a result, the ECL has a higher than usual degree of uncertainty and the inputs used are inherently subject to change, which may materially change the estimate in future periods.

On the other hand, recognition of specific provision on impaired financing facility under the CBK rules is based on the instructions prescribed by the CBK on the minimum provision to be recognised, together with any additional provision to be recognised based on management's estimate of expected cash flows related to that financing facility.

We determined that 'Credit losses on Islamic financing to customers' is a key audit matter due to the significance of financing facilities and the related estimation uncertainty and judgement applied by management in the identification of significant increase in credit risk and consequent staging of customers; the significant judgment required by management when designing future macroeconomic scenarios; forecasting macroeconomic variables and probability-weighting scenarios. This is further heightened by the high degree of estimation uncertainty due to the economic impacts of COVID-19 that led to a high degree of judgment, including determination of whether rescheduling of profit or principal for certain financing facilities resulted in temporary or permanent liquidity issues of the customers.

Our audit procedures include testing the design and implementation of controls over the assessment and calculation of material significant increase in credit risk (SICR) indicators and staging of customers accordingly. We also tested the effectiveness of controls over the PD, LGD and EAD models and the design of multiple future macroeconomic scenarios, the forecasting of macroeconomic variables, and the probability-weighting of these scenarios. The procedures also covered the impact of ECL caused by the economic disruption arising from the COVID 19 pandemic, including ones focused on rescheduled financing facilities.

With respect to the ECL, we have selected samples of financing facilities outstanding, included rescheduled financing facilities, and checked the appropriateness of the Group's determination of significant increase in credit risk and the resultant basis for classification of the financing facilities into various stages. We involved our specialists to review the ECL model in terms of key data, methods and assumptions used to ensure they are in line with IFRS 9 requirements, determined in accordance with CBK guidelines. For a sample of financing facilities, we have checked the appropriateness of the Group's staging criteria, EAD, PD and LGD including the eligibility and value of collateral considered in the ECL models used by the Group and the overlays considered by the management in view of the ongoing COVID-19 pandemic, in order to determine ECL taking into consideration CBK guidelines. We have also checked the consistency of various inputs and assumptions used by the Group's management to determine ECL.

Further, for the CBK rules provision requirements, we have assessed the criteria for determining whether there is a requirement to calculate any credit loss in accordance with the related regulations and, if required, it has been computed accordingly. For the samples selected, which included rescheduled financing facilities, we have verified whether all impairment events have been identified by the Group's management. For the selected samples which also included impaired financing facilities, we have assessed the valuation of collateral and checked the resultant provision calculations.

Other information included in the Group's 2020 Annual Report

Management is responsible for the other information. Other information consists of the information included in the Group's 2020 Annual Report, other than the consolidated financial statements and our auditors' report thereon. We obtained the report of the Bank's Board of Directors, prior to the date of our auditors' report, and we expect to obtain the remaining sections of the Group's 2020 Annual Report after the date of our auditors' report.
Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement in this other information; we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs as adopted by CBK for use by the State of Kuwait, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in

NDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF
WARBA BANK K.S.C.P

Report on the audit of the consolidated Financial Statements

the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of account have been kept by the Bank and the consolidated financial statements, together with the contents of the report of the Bank's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the CBK as stipulated in CBK Circular Nos. 2/RB, RBA/336/2014 dated 24 June 2014 and its amendments, and 2/I.B.S. 343/2014 dated 21 October 2014 and its amendments, respectively, the Companies Law No 1 of 2016, as amended, and its executive regulations, as amended, and by the Bank's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the CBK as stipulated in CBK Circular Nos. 2/RB, RBA/336/2014 dated 24 June 2014 and its amendments, and 2/I.B.S. 343/2014 dated 21 October 2014 and its amendments, respectively, the Companies Law No 1 of 2016, as amended, and its executive regulations, as amended, or of the Bank's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 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 audit, we have not become aware of any violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the CBK and the organisation of banking business, and its related regulations during the year ended 31 December 2020 that might have had a material effect on the business of the Bank or on its financial position.

BADER A. AL-ABDULJADER
LICENCE NO. 207-A
(EY (AL AIBAN, AL OSAIMI & PARTNERS

DR. RASHEED M. AL – QENAE
LICENSE NO. 130-A OF KPMG SAFI AL-MUTAWA & PARTNERS
MEMBER FIRM OF KPMG INTERNATIONAL

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	Notes	2020 KD '000	2019 KD '000
ASSETS			
Cash and bank balances	3	**110,999**	102,544
Placements with banks and the CBK		**357,897**	225,703
Financing receivables	4	**2,497,366**	2,261,974
Financial assets at fair value through profit or loss	5	**90,929**	55,895
Financial assets at fair value through other comprehensive income	6	**237,050**	323,062
Investment in joint ventures	7	**108,240**	91,007
Investment properties	8	**30,039**	20,798
Other assets		**23,074**	39,885
Property and equipment		**19,660**	22,803
TOTAL ASSETS		**3,475,254**	3,143,671
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks and other financial institutions	9	**494,355**	953,303
Depositors' accounts	10	**2,353,454**	1,705,811
Sukuk issued	11	**302,429**	152,179
Other liabilities		**44,922**	38,018
TOTAL LIABILITIES		**3,195,160**	2,849,311
EQUITY			
Share capital	12	**157,500**	150,000
Share premium		**40,000**	40,000
Statutory reserve	12	**3,098**	3,098
Fair value reserve		**1,676**	7,211
Foreign currency translation reserve		**1,469**	127
Accumulated losses) retained earnings)		**(12)**	10,061
		203,731	210,497
Proposed distributions	12	**-**	7,500
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE BANK		**203,731**	217,997
Sukuk 1 Perpetual Tier	13	**76,363**	76,363
TOTAL EQUITY		**280,094**	294,360
TOTAL LIABILITIES AND EQUITY		**3,475,254**	3,143,671

Abdulwahab A. Al Houti
Chairman

Shaheen H. Al Ghanem
Chief Executive Officer

The accompanying notes 1 to 25 form an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2020

	Notes	2020 KD '000	2019 KD '000
Placements and finance income		**109,282**	109,570
Finance costs and distribution to depositors		**(62,826)**	(64,081)
Net finance income		**46,456**	45,489
Net investment income	14	**26,252**	7,884
Net fee and commission income	15	**3,228**	5,070
Other income	16	**3,765**	296
Foreign exchange (loss) gain		**(907)**	1,023
Net operating income		**78,794**	59,762
Staff costs		**(17,669)**	(14,807)
General and administrative expenses		**(3,936)**	(4,426)
Depreciation expense		**(4,623)**	(3,174)
Net operating expenses		**(26,228)**	(22,407)
Net operating profit before provision for impairment and credit losses		**52,566**	37,355
Provision for impairment and credit losses	17	**(46,638)**	(19,908)
Profit before tax and board of directors' remuneration		**5,928**	17,447
Contribution to Kuwait Foundation for the Advancement of Sciences ((KFAS		**-**	(157)
National Labour Support Tax (NLST)		**(166)**	(452)
Zakat		**(65)**	(175)
Board of directors' remuneration		**(63)**	(125)
NET PROFIT FOR THE YEAR		**5,634**	16,538
BASIC AND DILUTED EARNINGS PER SHARE (EPS)	18	**fils 0.41**	fils 7.36

The accompanying notes 1 to 25 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Notes	2020 KD '000	2019 KD '000
Net profit for the year		**5,634**	16,538
Other comprehensive (loss) income			
Other comprehensive (loss) income that will be reclassified to profit or loss			
Debt instruments at fair value through other comprehensive income			
Net change in fair value		**3,314**	11,434
Changes in allowance for expected credit losses	17	**(979)**	682
Reclassification adjustment on derecognition	14	**(7,903)**	(215)
Net (losses) gains on debt instruments at fair value through other comprehensive income		**(5,568)**	11,901
Cash flow hedges:			
Hedging net losses		**-**	(1,266)
Less: reclassification adjustment on discontinuation of the hedging relationship		**-**	1,209
Movement on cash flow hedges		**-**	(57)
Foreign currency translation:			
Exchange differences on translation of foreign operations		**1,342**	48
Total items that are or may be reclassified to profit or loss		**(4,226)**	11,892
Other comprehensive income that will not be reclassified to profit or loss			
Net change in fair value of equity investments at fair value through other comprehensive income		**33**	13
Total items that will not be reclassified to profit or loss		**33**	13
OTHER COMPREHENSIVE (LOSS) INCOME FOR THE YEAR		**(4,193)**	11,905
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**1,441**	28,443

The accompanying notes 1 to 25 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital KD'000	Share premium KD'000	Statutory reserve KD'000	Fair value reserve KD'000	Foreign currency translation reserve KD'000	Accumulated) losses) retained earnings KD'000	Sub-total KD'000	Proposed distributions KD'000	Equity attributable to shareholders of the Bank KD'000	Perpetual Tier 1 Sukuk KD'000	Total equity KD'000
January 1 As at 2020	150,000	40,000	3,098	7,211	127	10,061	210,497	7,500	217,997	76,363	294,360
Net profit for the year	-	-	-	-	-	5,634	5,634	-	5,634	-	5,634
Other comprehensive (loss) income	-	-	-	(5,535)	1,342	-	(4,193)	-	(4,193)	-	(4,193)
Total comprehensive (loss) income for the year	-	-	-	(5,535)	1,342	5,634	1,441	-	1,441	-	1,441
Transferred to the statutory reserve	-	-	-	-	-	-	-	-	-	-	-
Issue of bonus (12 shares (Note	7,500	-	-	-	-	-	7,500	(7,500)	-	-	-
Profit paid on 1 Perpetual Tier (13 Sukuk (Note	-	-	-	-	-	(4,981)	(4,981)	-	(4,981)	-	(4,981)
Modification loss on payment deferral (Note program (25	-	-	-	-	-	(10,726)	(10,726)	-	(10,726)	-	(10,726)
December 31 At 2020	157,500	40,000	3,098	1,676	1,469	(12)	203,731	-	203,731	76,363	280,094
1 As at 2019 January as previously reported ((audited	150,000	40,000	1,353	(4,646)	79	7,779	194,565	-	194,565	76,363	270,928
Impact of adopting IFRS January 1 at 16 2019	-	-	-	-	-	(68)	(68)	-	(68)	-	(68)
Restated opening balance under 16 IFRS	150,000	40,000	1,353	(4,646)	79	7,711	194,497	-	194,497	76,363	270,860
Net profit for the year	-	-	-	-	-	16,538	16,538	-	16,538	-	16,538
Other comprehensive income	-	-	-	11,857	48	-	11,905	-	11,905	-	11,905
Total comprehensive income for the year	-	-	-	11,857	48	16,538	28,443	-	28,443	-	28,443
Transferred to the statutory reserve	-	-	1,745	-	-	(1,745)	-	-	-	-	-
Proposed distributions (Note 12)											
Proposed bonus shares	-	-	-	-	-	(7,500)	(7,500)	7,500	-	-	-
Profit paid on Perpetual Tier 1 Sukuk (Note 13)	-	-	-	-	-	(4,943)	(4,943)	-	(4,943)	-	(4,943)
December 31 At 2019	150,000	40,000	3,098	7,211	127	10,061	210,497	7,500	217,997	76,363	294,360

The accompanying notes 1 to 25 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	Notes	2020 KD '000	2019 KD '000
OPERATING ACTIVITIES			
Profit before tax and board of directors' remuneration		**5,928**	17,447
Adjustments for:			
Net investment income	14	**(26,252)**	(7,884)
Provision for employees' end of service benefits		**904**	779
Gain on sale of property and equipment		**(795)**	-
Depreciation expense		**4,623**	3,174
Provision for impairment and credit losses		**46,638**	19,908
		31,046	33,424
Changes in operating assets and liabilities:			
Placements with banks and the CBK		**18,811**	1,973
Financing receivables		**(294,393)**	(672,864)
Other assets		**16,584**	(13,913)
Due to banks and other financial institutions		**(459,005)**	118,074
Depositors' accounts		**647,643**	652,633
Other liabilities		**(4,981)**	(1,332)
Taxes paid		**(627)**	(569)
Net cash flows (used in) from operating activities		**(44,922)**	117,426
INVESTING ACTIVITIES			
Purchase/capital contributions of financial assets at FVPL		**(44,508)**	(19,339)
Proceeds from sale/redemption of financial assets at FVPL		**12,685**	2,634
Purchase of financial assets at FVOCI		**(157,759)**	(228,810)
Proceeds from sale of financial assets at FVOCI		**251,252**	65,877
Additions to investment in joint ventures	7	**(13,084)**	(35,550)
Proceeds from sale of investment property		**7,278**	2,259
Purchase of property and equipment		**(6,248)**	(3,298)
Proceeds from sale of property and equipment		**2,924**	-
Dividends received from financial assets		**2,175**	2,151
Other investment income received		**580**	937
Amounts paid on discontinuation of the hedging relationship		**-**	(1,209)
Distributions received from joint ventures		**5,388**	4,159
Rental income received		**1,064**	1,425
Net cash flows from (used in) investing activities		**61,747**	(208,764)
FINANCING ACTIVITIES			
Profit paid to holders of Perpetual Tier 1 Sukuk	13	**(4,981)**	(4,943)
Net movement on Sukuk issued		**150,250**	152,179
Payment of lease liabilities		**(2,698)**	(2,187)
Net cash flows from financing activities		**142,571**	145,049
NET INCREASE IN CASH AND CASH EQUIVALENTS		**159,396**	53,711
Cash and cash equivalents at 1 January		**283,637**	229,926
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**443,033**	283,637

The accompanying notes 1 to 25 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

1 . CORPORATE INFORMATION

Warba Bank K.S.C.P. (the "Bank") is a Kuwaiti public shareholding company, incorporated on 17 February 2010 in the State of Kuwait by virtue of Amiri Decree No. 289/2009. The Bank is registered as an Islamic banking institution in accordance with the rules and regulations of the Central Bank of Kuwait (the "CBK") on 7 April 2010 and its shares are publicly traded on the Boursa Kuwait. The Bank's head office is located at Al-Raya Tower, Mezzanine floor 1, Omar Ibn Al-Khattab Street and its registered postal address is P.O. Box 1220, Safat 13013, State of Kuwait.

The Bank is primarily involved in investment, corporate and retail banking activities in accordance with the principles of Islamic Shari'a, as approved by the Bank's Shari'a Supervisory Board.

The annual general assembly meeting ("AGM") of the shareholders of the Bank held on 20 April 2020 approved the consolidated financial statements for the year ended 31 December 2019. Distributions proposed and approved by the Bank for the year then ended are provided in Note 12.

The consolidated financial statements of the Bank and its wholly owned special purpose vehicles (collectively, the "Group") for the year ended 31 December 2020 were authorised for issue in accordance with a resolution of the Board of Directors on 12 January 2021. The shareholders of the Bank have the power to amend these consolidated financial statements in the AGM.

2.1 BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with the regulations for financial services institutions as issued by the Central Bank of Kuwait (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 with the following amendments:

(a) expected credit loss ("ECL") to be measured at the higher of ECL on financing facilities computed under IFRS 9 in accordance with the CBK guidelines or the provisions as required by CBK instructions along with its consequent impact on related disclosures; and

(b) recognition of modification losses on financial assets arising from payment holidays to customers in response to Covid-19 to be recognized in retained earnings instead of profit or loss as required by IFRS 9.

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

The consolidated financial statements have been prepared on a historical cost basis except for financial assets designated at fair value through profit or loss (FVTPL), debt and equity instruments at fair value through other comprehensive income (FVOCI) and investment properties all of which have been measured at fair value.

The Bank presents its statement of financial position in order of liquidity based on the Bank's intention and perceived ability to recover/settle the majority of assets/liabilities of the corresponding financial statement line item. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non–current) is presented in Note 21.

The consolidated financial statements are presented in Kuwaiti Dinars (KD) and all values are rounded to the nearest thousand (KD '000), except when otherwise indicated.
The consolidated financial statements provide comparative information in respect of the previous period. Certain comparative information has been reclassified and represented to conform to classification in the current period. Such reclassification has been made to improve the quality of information presented.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of these consolidated financial statements are consistent with those used in the previous financial year, except for the adoption of new standards effective as of 1 January 2020. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

2.2.1 New standards, interpretations, and amendments adopted by the Group

Several amendments and interpretations apply for the first time in 2020, but do not have an impact on the consolidated financial statements of the Group.

Amendments to IFRS 3: Definition of a Business

The amendment to IFRS 3 clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Furthermore, it clarified that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the consolidated financial statements of the Group, but may impact future periods should the Group enter into any business combinations.

Adoption of profit rate benchmark reform (IBOR reform Phase 1)

The Group has adopted profit rate benchmark reform – Amendments to IFRS 9, IAS 39 and IFRS 7 (IBOR reform Phase 1) with effect from 1 January 2020. IBOR reform Phase 1 includes a number of reliefs, which apply to all hedging relationships that are directly affected by profit rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument during the period before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate (RFR). This may lead to uncertainty whether a forecast transaction is highly probable and whether prospectively the hedging relationship is expected to be highly effective. IBOR reform Phase 1 provides reliefs which require the Group to assume that hedging relationships are unaffected by the uncertainties caused by IBOR reform. This includes assuming that hedged cash flows are not altered as a result of IBOR reform. Also, the reliefs allow the Group to not discontinue hedging relationships as a result of retrospective or prospective ineffectiveness. These amendments did not have a material impact on the consolidated financial statements of the Group.

Amendments to IAS 1 and IAS 8: Definition of Material

The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material

if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the consolidated financial statements of, nor is there expected to be any future impact to the Group.

Conceptual Framework for Financial Reporting issued on 29 March 2018

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards.
The revised Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts.
These amendments had no impact on the consolidated financial statements of the Group.

2.2 CHANGES IN ACCOUNTING POLICIES (continued)

2.2.1 New standards, interpretations, and amendments adopted by the Group (continued)

Amendments to IFRS 16 Covid-19 Related Rent Concessions

On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

The amendment applies to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted. This amendment had no material impact on the consolidated financial statements of the Group.

2.2.2 Summary of accounting policies for new transactions and events

Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

When the Group receives grants of non-monetary assets, the asset and the grant are recorded at nominal amounts and released to profit or loss over the expected useful life of the asset, based on the pattern of consumption of the benefits of the underlying asset by equal annual instalments.

2.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

Reference to the Conceptual Framework – Amendments to IFRS 3

In May 2020, the IASB issued Amendments to IFRS 3 Business Combinations - Reference to the Conceptual Framework. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements.

The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately.

At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively.

The amendments are not expected to have a material impact on the Group.

WARBA BANK

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16

In May 2020, the IASB issued Property, Plant and Equipment — Proceeds before Intended Use, which prohibits entities from deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

The amendments are not expected to have a material impact on the Group.

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

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS 9. 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 by the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Group will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendments are not expected to have a material impact on the Group.

Profit Rate Benchmark Reform (Phase 2)

On 27 August 2020 the International Accounting Standards Board (IASB or the Board) published 'Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16' (IBOR reform Phase 2). IBOR reform Phase 2 provides temporary reliefs to address the accounting issues which arise upon the replacement of an Inter-Bank Offered Rate (an IBOR) with an alternative nearly risk-free profit rate (an RFR). The amendment is effective for annual reporting periods beginning on or after 1 January 2021 with earlier adoption permitted.

The impact of the replacement of interbank offered rates ('IBORs') with alternative risk-free rates on the Group's products and services remains a key area of focus. The Group has exposure to contracts referencing IBORs, such as Libor, extending

2.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

past FY2021, when it is likely that these IBORs will cease being published. The Group is currently assessing the impact of the Group's transition to the new rate regimes after 2021 by considering changes in its products, services, systems and reporting and will continue to engage with internal and external stakeholders to support an orderly transition and to mitigate the risks resulting from the transition.

IFRS 17 – Insurance contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. IFRS 17 introduces new accounting requirements for banking products with

2.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

IFRS 17-Insurance contracts (continued)

insurance features that may affect the determination of which instruments or which components thereof will be in the scope of IFRS 9 or IFRS 17.
Credit cards and similar products that provide insurance coverage: most issuers of these products will be able to continue with their existing accounting treatment as a financial instrument under IFRS 9. IFRS 17 excludes from its scope credit card contracts (and other similar contracts that provide credit or payment arrangements) that meet the definition of an insurance contract if, and only if, the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer. When the insurance coverage is provided as part of the contractual terms of the credit card, the issuer is required to:

- Separate the insurance coverage component and apply IFRS 17 to it
- Apply other applicable standards (such as IFRS 9, IFRS 15 Revenue from Contracts with Customers or IAS 37 Provisions, Contingent Liabilities and Contingent Assets) to the other components

Loan contracts that meet the definition of insurance but limit the compensation for insured events to the amount otherwise required to settle the policyholder's obligation created by the contract: Issuers of such loans – e.g. a loan with waiver on death – have an option to apply IFRS 9 or IFRS 17. The election would be made at a portfolio level and would be irrevocable.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17.

The Group is currently in the process of assessing the impact of adopting IFRS 17 on its consolidated financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.4.1 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its wholly owned special purpose vehicles (investees which are controlled by the Bank) as at 31 December 2020. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.
Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure to or an accrual of variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a wholly owned special purpose vehicle begins when the Group obtains control over the wholly owned special purpose vehicle and ceases when the Group loses control of the wholly owned special purpose vehicle. Assets, liabilities, income and expenses of a wholly owned special purpose vehicle acquired or disposed of during the year are included in the consolidated financial statements from the date the Group

gains control until the date the Group ceases to control the wholly owned special purpose vehicle.
Profit or loss and each component of OCI are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4.1 Basis of consolidation (continued)

accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a wholly owned special purpose vehicle, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a wholly owned special purpose vehicle, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

The consolidated financial statements include the financial statements of the Bank and its wholly owned special purpose vehicles. The wholly owned special purpose vehicles of the Bank are as follows:

Name of subsidiary	Principal activities	Country of incorporation	Equity interest %	
			31 December 2020	31 December 2019
Abyat Real Estate Company L.L.C.	Real estate	Sultanate of Oman	**100**	100
Themar Al Omania Company L.L.C.	Real estate	Sultanate of Oman	**100**	100
Al Kout Holdings Limited	Real estate	Jersey	**100**	100
Warba Tier 1 Sukuk Limited	Financial securities	Cayman Islands	**100**	100

2.4.2.1 Date of recognition

Financial assets and liabilities, with the exception of financing receivable and depositors' accounts, are initially recognised on the trade date, i.e., the date that the Group becomes a party to the contractual provisions of the instrument. This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Financing to customers are recognised when funds are transferred to the customers' accounts. The Group recognises depositors' accounts when funds are transferred to the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4.2.2 Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value except in the case of

financial assets and liabilities recorded at FVTPL, transaction costs are added to, or subtracted from, this amount.

2.4.2.3 Day 1 profit or loss

When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Group recognises the difference between the transaction price and fair value in the investment income. In those cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in profit or loss when the inputs become observable, or when the instrument is derecognised.

2.4.2.4 Determining the classification and measurement of financial assets and liabilities

The Group has determined the classification and measurement of its financial assets as follows:

• Cash and cash equivalents
Cash and cash equivalents as referred to in the cash flow statement comprises cash on hand, non-restricted current accounts with central banks and placements with banks on demand or with an original maturity of three months or less.

• Placements with banks, Financing receivables, Financial investments at amortised cost
The Bank only measures placements with banks, financing receivables and other financial investments at amortised cost if both of the following conditions are met:

• The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
• The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit (SPPP) on the principal amount outstanding

The details of these conditions are outlined below.

Business model assessment
The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective:

• The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
• How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)

The expected frequency, value and timing of sales are also important aspects of the Bank's assessment The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)
2.4.2 Financial instruments – initial recognition (continued)
2.4.2.4 Determining the classification and measurement of financial assets and liabilities (continued)

The SPPP test

As a second step of its classification process the Bank assesses the contractual terms of the financial aset to identify whether they meet the SPPP test.

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

The most significant elements of profit within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPP assessment, the Bank applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the profit rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and profit on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

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

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

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Profit returns and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortised cost. The ECL calculation for Debt instruments at FVOCI is explained below. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the consolidated statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon derecognition of the assets.

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

Gains and losses on these equity instruments are never recycled to profit or loss. Dividends are recognised in profit or loss when the right of the payment has been established, except when the Bank benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment.

- Financial assets and financial liabilities at fair value through profit or loss (FVTPL)
  Financial assets and financial liabilities in this category are those that are not held for trading and have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4.2 Financial instruments – initial recognition (continued)

2.4.2.4 Determining the classification and measurement of financial assets and liabilities (continued)

The SPPP test (continued)

Management only designates an instrument at FVTPL upon initial recognition when one of the following criteria are met. Such designation is determined on an instrument-by-instrument basis:

- The designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis; or

- The liabilities (and assets until 1 January 2018 under IAS 39) are part of a group of financial liabilities (or financial assets, or both under IAS 39), which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or

- The liabilities (and assets until 1 January 2018 under IAS 39) contain one or more embedded derivatives, unless they do not significantly modify the cash flows that would otherwise be required by the contract, or it is clear with little or no analysis when a similar instrument is first considered that separation of the embedded derivative(s) is prohibited

- Financial liabilities other than at fair value through profit or loss

These financial liabilities are subsequently measured at amortised cost using the effective profit method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective profit rate.

Due to banks and other financial institutions, depositors' accounts, sukuk issued and other liabilities are classified as "financial liabilities other than at fair value through profit or loss".

- Financial guarantees, letters of credit and undrawn loan commitments

  The Bank issues financial guarantees, letters of credit and loan commitments.

Financial guarantees are initially recognised in the financial statements at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the statement of profit or loss, and from 1 January 2018 the higher of ECL under IFRS 9 according to the CBK guidelines, and the provisions required by the CBK.

The premium received is recognised in the statement of profit or loss in Net fees and commission income on a straight line basis over the life of the guarantee.

2.4.3 Financial instruments - Derecognition of financial assets and liabilities

A financial asset (or where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- The rights to receive cash flows from the asset have expired, or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4.2 Financial instruments – initial recognition (continued)

2.4.3 Financial instruments - Derecognition of financial assets and liabilities (continued)

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same financer on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the consolidated statement of profit or loss.

De-recognition due to substantial modification or terms and conditions
The Group derecognises a financial asset, such as financing receivables, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new finance, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised financing receivables are classified as Stage 1 for ECL measurement purposes, unless they are deemed to be credit impaired.

When assessing whether or not to derecognise a financing receivable, amongst others, the Group considers the following factors:

- Change in currency of the financing
- Introduction of an equity instrument feature
- Change in counterparty

If the modifications are such that, the instrument would no longer meet the SPPP criterion

De-recognition due to substantial modification or terms and conditions (continued)
If the modifications do not result in cash flows that are substantially different, they result in derecognition. Based on the change in cash flows discounted at original effective profit rate, the Group records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

2.4.4 Impairment of financial assets

2.4.4.1 Expected credit loss of financial assets

The Expected credit loss (ECL) model applies to financial assets measured at amortised cost, contract assets and debt instruments at FVOCI. The credit losses are based on ECL associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since initial recognition. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the credit loss is based on the change in ECL over the life of the asset.

The Group measures ECL for financing receivables, non-cash credit facilities in the form of bank guarantees, letters of guarantee, documentary letters of credit, undrawn cash and non-cash credit facilities (revocable and irrevocable) (together “financing facilities”), placements with banks and investment in debt instruments measured at FVOCI.

The Group considers balances with the CBK and Sukuk issued by the CBK and the Government of Kuwait have low credit risk based on external credit ratings of the counterparties and hence ECL is considered negligible . Equity investments are not subject to ECL.

The Group considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties and CBK guarantee of deposits placed with local banks.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)
2.4.4 Impairment of financial assets (continued)
2.4.4.1 Expected credit loss of financial assets (continued)

The Group provides for credit losses on financing facilities according to the CBK guidelines and records the provision for impairment of financing facilities at the higher of ECL under IFRS 9 according to the CBK guidelines, and the provisions required by the CBK instructions.

Expected Credit Losses
The Group applies a three-stage approach to measure the ECL as described below:

Stage 1: 12-month ECL

The Group measures loss allowances at an amount equal to 12-month ECL on financial assets where there has not been a significant increase in credit risk since their initial recognition or on exposures that are determined to have a low credit risk at the reporting date. The Group considers a financial asset to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'.

Stage 2: Lifetime ECL – not credit impaired

The Group measures loss allowances at an amount equal to lifetime ECL on financial assets where there has been a significant increase in credit risk since initial recognition but are not credit impaired.

Stage 3: Lifetime ECL – credit impaired

The Group measures loss allowances on financial assets determined as a credit impaired based on an objective evidence on impairment at an amount equal to lifetime ECL.

Lifetime ECL is ECL that result from all possible default events over the remaining expected life of a financial instrument. The 12 month ECL is the portion of lifetime expected credit loss that result from default events that are possible within the 12 months after the reporting date. Both lifetime ECL and 12 month ECL are calculated on either an individual basis or a collective basis depending on the nature of the underlying portfolio of financial instruments.

Determining the stage of impairment

At each reporting date, the Group assesses whether there has been significant increase in credit risk since initial recognition by comparing the risk of default occurring over the remaining expected life from the reporting date with the risk of default at the date of initial recognition. The quantitative criteria used to determine a significant increase in credit risk is a series of relative and absolute thresholds. All financial assets that are 30 days past due are deemed to have significant increase in credit risk since initial recognition and migrated to stage 2 even if other criteria do not indicate a significant increase in credit risk.

At each reporting date, the Group also assesses whether a financial asset or group of financial assets is credit impaired. The Group considers a financial asset to be credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred or when contractual payments are 90 days past due. All credit impaired financial assets are classified as stage 3 for ECL measurement purposes. Evidence of credit impairment includes observable data about the following:

- Significant financial difficulty of the borrower or issuer
- A breach of contract such as default or past due event
- The lender having granted to the borrower a concession, that the lender would otherwise not consider, for economic or contractual reasons relating to the borrower's financial difficulty
- The disappearance of an active market for a security because of financial difficulties
- Purchase of a financial asset at a deep discount that reflects the incurred credit loss

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)
2.4.4 Impairment of financial assets (continued)
2.4.4.1 Expected credit loss of financial assets (continued)
Determining the stage of impairment (continued)

At the reporting date, if the credit risk of a financial asset or group of financial assets has not increased significantly since initial recognition or not credit impaired, these financial assets are classified as stage 1.

Measurement of ECL

ECL is the probability weighted estimate of credit losses and is measured as the present value of all cash shortfalls discounted at the effective profit rate of the financial instrument. Cash shortfall represents the difference between cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive. The key elements in the measurement of ECL include probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD"). The Group estimates these elements using appropriate credit risk models taking into consideration the internal and external credit ratings of the assets, nature and value of collaterals, forward looking macroeconomic scenarios as well as other factors.

Presentation of allowance for ECL in the consolidated statement of financial position

Loss allowances for ECL are presented as a deduction from the gross carrying amount of the financial assets for financial assets carried at amortised cost. In the case of debt instruments measured at FVOCI, the Group recognises the ECL charge in the consolidated statement of profit or loss and a corresponding amount is recognised in other comprehensive income with no reduction in the carrying amount of the financial asset in the consolidated statement of financial position.

Incorporation of forward looking information

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

Renegotiated financing receivables

In the event of a default, the Group seeks to restructure financing to customers rather than take possession of collateral. This may involve extending the payment arrangements and the agreement of new financing conditions. When the financing to customers has been renegotiated or modified but not derecognised, any impairment is measured using the original effective yield method as calculated before the modification of terms. Management continually reviews renegotiated financing to ensure that all criteria are met and that future payments are likely to occur. Management also assesses whether there has been significant increase in credit risk or the facility should be classified in stage 3.

2.4.4.2 Provisions for credit losses in accordance with the CBK instructions

The Group is required to calculate provisions for credit losses on financing receivables in accordance with the CBK instructions with respect to financing receivables and the calculation of provisions. Financing receivables are classified as past due when a payment has not been received on its contractual payment date or if the facility is in excess of pre-approved limits. A financing receivable is classified as past due and impaired when the profit or a principal instalment is past due for more than 90 days and if the carrying amount of the facility is greater than its estimated recoverable value. Past due and past due and impaired financing receivables are managed and monitored as irregular facilities and are classified into the following four categories which are then used to determine the provisions:

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4.4 Impairment of financial assets (continued)

2.4.4.2 Provisions for credit losses in accordance with the CBK instructions (continued)

Category	Criteria	Specific provision
Watch list	Irregular for a period up to 90 days	-
Substandard	Irregular for a period of 91- 180 days	20%
Doubtful	Irregular for a period of 181- 365 days	50%
Bad	Irregular for a period exceeding 365 days	100%

The Group may also include a credit facility in one of the above categories based on management's judgement of a customer's financial and/or non-financial circumstances.

Minimum general provisions of 1% on cash facilities and 0.5% on non-cash facilities are made on all applicable financing receivables (net of certain restricted categories of collateral) which are not subject to specific provisioning.

2.4.5 Write-offs

Financial assets are written off either partially or in their entirety only when the Bank has no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to other income.

2.4.6 Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the consolidated financial position when there is a legally enforceable right to set off the recognised amounts and the Group intends to settle on a net basis so as to realise the assets and liabilities simultaneously.

2.4.7Derivative financial instruments and hedge accounting

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

Beginning 1 January 2018, the documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge effectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is 'an economic relationship' between the hedge item and the hedging instrument.
- The effect of the credit risk does not 'dominate the value changes' that result from that economic relationship; and
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

Cash flow hedges

The cash flow hedges hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability, a highly probable transaction or foreign exchange risks within an unrecognised firm commitment.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4.7 Derivative financial instruments and hedge accounting (continued)

In accordance with its wider risk management, it is the Group's strategy to apply cash flow hedge accounting to keep its profit rate and foreign currency revaluation fluctuations within its established limits. Applying cash flow hedge accounting enables the Group to reduce the cash flow fluctuations arising from foreign exchange and profit rate risk on an instrument or group of instruments, or to hedge profit rate mismatches on a portfolio level from its floating liabilities including future issuances.

From an accounting point of view, a cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability (such as all or some future profit payments on variable rate debt) or a highly probable forecast transaction and could affect profit or loss.

For designated and qualifying cash flow hedges, the effective portion of the cumulative gain or loss on the hedging instrument is initially recognised directly in OCI within equity. The ineffective portion of the gain or loss on the hedging instrument is recognised immediately in profit or loss.

When the hedged cash flow affects the statement of profit or loss, the effective portion of the gain or loss on the hedging instrument is recorded in the corresponding income or expense line of the statement of profit or loss.

When a hedging instrument expires, is sold, terminated, exercised, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss that has been recognised in OCI at that time remains in OCI and is recognised when the hedged forecast transaction is ultimately recognised in the statement of profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in OCI is immediately transferred to the statement of profit or loss.

To test the hedge effectiveness, the Group compares the changes in the fair value of the hedging instruments against the changes in fair value of the hedged items attributable to the hedged risk (e.g., changes in the forward exchange rates or profit rate risk).

2.4.8 Investments in joint venture

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The considerations made in determining joint control are similar to those necessary to determine control over subsidiaries. The Group's investment in its joint ventures are accounted for using the equity method.

Under the equity method, the investment in joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the joint venture since the acquisition date. Goodwill relating to the joint venture is included in the carrying amount of the investment and is not tested for impairment separately.

The statement of profit or loss reflects the Group's share of the results of operations of the joint venture. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the joint venture, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the joint venture are eliminated to the extent of the interest in the associate or joint venture.

The financial statements of the joint ventures are prepared with three months gap from the reporting period of the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.
After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its joint venture. At each reporting date, the Group determines whether there is objective evidence that

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4.8 Investments in joint venture (continued)

the investment in the joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value, and then recognises the loss in the statement of profit or loss.

Upon loss of joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the joint venture upon loss of joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

2.4.9 Investment properties

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the period in which they arise, including the corresponding tax effect. Fair values are determined based on an annual valuation performed by an accredited external independent valuer using appropriate valuation techniques.

Investment properties are derecognised either when they have been disposed of (i.e., at the date the recipient obtains control) or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in profit or loss in the period of derecognition. In determining the amount of consideration from the derecognition of investment property the Group considers the effects of variable consideration, existence of a significant financing component, non-cash consideration, and consideration payable to the buyer (if any).

Transfers are made to (or from) investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

2.4.10 Property and equipment

Property and equipment is stated at historical cost less accumulated depreciation and any impairment in value. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognised or as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss as incurred.

Land is not depreciated. Depreciation of other property and equipment items is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives, as follows:

• Buildings	20-40 years
• Furniture, fixtures and equipment	3-5 years

An item of property, and equipment and any significant part initially recognised is derecognised upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of profit or loss when the asset is derecognised.

The residual values, useful lives and methods of depreciation of property and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

2.4.11 Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit (CGU) fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on most recent budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

Goodwill is tested for impairment annually as at the reporting date and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

2.4.12 End of service indemnity

The Group provides for end of service benefits to all of its employees as per the Kuwaiti Labor Law. The entitlement to the benefits is based upon the employee's final salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

2.4.13 Revenue recognition

Revenue is recognised either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised goods or services to its customers.

Rental income

The Group is the lessor in operating leases. Rental income arising from operating leases on investment property is accounted for on a straight-line basis over the lease terms.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)
2.4.13 Revenue recognition (continued)

Fee and commission income

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income, and other management and advisory fees.

The Group earns fee and commission income from a diverse range of financial services it provides to its customers. Fee and commission income is recognised at an amount that reflects the consideration to which the Group expects to be entitled in exchange for providing the services.

The performance obligations, as well as the timing of their satisfaction, are identified, and determined, at the inception of the contract. The Group's revenue contracts do not typically include multiple performance obligations.

When the Group provides a service to its customers, consideration is invoiced and generally due immediately upon satisfaction of a service provided at a point in time or at the end of the contract period for a service provided over time.

The Group has generally concluded that it is the principal in its revenue arrangements because it typically controls the services before transferring them to the customer.

Finance and similar income

Finance and similar income includes income from Wakala, Murabaha and Ijara investments and is calculated using both the EIR method and other methods.

Dividend income

Dividend income is recognised when the right to receive payment is established.

Net investment income

Net investment income includes all gains and losses from changes in fair value and dividends. This includes any ineffectiveness recorded on hedging transactions.

2.4.14 Foreign currency translation

Functional and presentational currency

The consolidated financial statements are presented in KD. For each entity in the group, the Bank determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group uses the direct method of consolidation.

Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency at the spot rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated into the functional currency at the spot rate of exchange at the reporting date. All foreign exchange differences arising on non-trading activities are taken to foreign exchange gain/(loss) in the consolidated statement of profit or loss.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the spot exchange rates as at the date of recognition.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4.14 Foreign currency translation (continued)

Group companies

On consolidation, the assets and liabilities in foreign operations are translated into KD at the spot rate of exchange prevailing at the reporting date and their income statements are translated at spot exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in OCI.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations, and are translated at the closing rate of exchange.

2.4.15 Taxation

National Labour Support Tax (NLST)

The Group calculates the NLST in accordance with Law No. 19/2000 and the Ministry of Finance resolution No. 24/2006 at 2.5% of taxable profit for the year. As per the law, cash dividends from listed companies which are subjected to NLST has to be deducted from the profit for the year.

Provision of Kuwait Foundation for the Advancement of Sciences (KFAS)

The Group calculates the contribution to KFAS at 1% of profit for the year in accordance with the modified calculation based on the Foundation's Board of Directors resolution, which states that the transfer to statutory reserve should be excluded from profit for the year when determining the contribution.

Zakat

Contribution to Zakat is calculated at 1% of the Group in accordance with the Ministry of Finance resolution No. 58/2007 effective from 10 December 2007.

2.4.16 Segment information

A segment is a distinguishable component of the Group that engages in business activities from which it earns revenue and incurs costs. The operating segments are used by the management of the Group to allocate resources and assess performance. Operating segments exhibiting similar economic characteristics, products and services, classes of customers where appropriate are aggregated and reported as reportable segments.

2.4.17 Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. When the effect of the time value of money is material, the Bank determines the level of provision by discounting the expected cash flows at a pre-tax rate reflecting the current rates specific to the liability. The expense relating to any provision is presented in the statement of profit or loss net of any reimbursement in provision for impairment and credit losses.

2.4.18 Contingent assets and liabilities

Contingent assets are not recognised in the consolidated financial statements, but are disclosed when an inflow of economic benefit is probable.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4.18 Contingent assets and liabilities (continued)

Contingent liabilities are not recognised in the consolidated financial statements, but are disclosed unless the possibility of an outflow of resources embodying economic benefit is remote.

2.4.19 Fiduciary assets

The Group provides fiduciary services that result in the holding or investing of assets on behalf of its clients. Assets held in a fiduciary capacity, unless recognition criteria are met, are not reported in the financial statements, as they are not assets of the Group.

2.4.20 Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Group's shareholders. Interim dividends are deducted from equity when they are declared and are no longer at the discretion of the Group.

Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

2.4.21 Sukuk issued

Sukuk issued are financial liabilities and are initially recognised at their fair value being the issue proceeds net of transaction costs and are subsequently measured at their amortised cost using the effective profit rate method.

2.4.22 Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

2.4.22.1 Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term.

The right-of-use assets are subject to impairment in line with the Group's policy as described in Note 2.4.11 - Impairment of non-financial assets.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (less any lease incentives receivable), variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects exercising the option to

WARBA BANK

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)
2.4.22.1 Group as a lessee (continued)
Lease liabilities (continued)

terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

2.4.22.2Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

2.5 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. In the process of applying the Group's accounting policies, management has made the following judgements and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Existing circumstances and assumptions about future developments may change due to circumstances beyond the Group's control and are reflected in the assumptions if and when they occur. Items with the most significant effect on the amounts recognised in the consolidated financial statements with substantial management judgement and/or estimates are collated below with respect to judgements/estimates involved.

2.5.1 Judgments

Consolidation of wholly owned special purpose vehicles

A wholly owned special purpose vehicle is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. The Group consolidates the structured entities that it controls, as explained in Note 2.4.1. When making this judgement, the Group also considers voting and similar rights available to itself and other parties, who may limit the Group's ability to control, including rights to appoint, reassign or remove members of the structured entity's key management personnel who have the ability to direct the relevant activities.

Going concern

The Group's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

2.5 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)
2.5.1 Judgments (continued)

Fair value of financial instruments

The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. When the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. Judgements and estimates include considerations of liquidity and model inputs related to items such as credit risk (both own and counterparty), funding value adjustments, correlation and volatility. For further details about determination of fair value please see Note 24.

Hedge accounting

The Group's hedge accounting policies include an element of judgement and estimation. Estimates of future profit rates and the general economic environment will influence the availability and timing of suitable hedged items, with an impact on the effectiveness of the hedge relationships.

Classification of financial assets

The Group determines the classification of financial assets based on the assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and profit.

Classification of property

Management decides on acquisition of a real estate property whether it should be classified as investment property or property and equipment. The Group classifies property as investment property if it is acquired to generate rental income or for capital appreciation or for an undetermined future use.

Determining the lease term of contracts with renewal and termination options – Group as lessee

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation to the leased asset).

2.5.2 Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also described in the individual notes of the related financial statement line items below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

2.5 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)
2.5.2 Estimation uncertainty (continued)

Impairment of investment in joint ventures

Investment in joint ventures are accounted for under the equity method of accounting for associates, whereby these investments are initially stated at cost, and are adjusted thereafter for the post-acquisition change in the Group's share of the net assets of the joint ventures less any impairment losses. The Group is required to assess, at each reporting date, whether there are indications of impairment. If such indications exist, the management estimates the recoverable amount of the joint venture in order to determine the extent of the impairment loss (if any). The identification of impairment indicators and determination of the recoverable amounts require management to make significant judgements, estimates and assumptions.

Expected credit losses of financial instruments – as per IFRS 9 according to the CBK guidelines

The Group's ECL calculations are outputs of complex model with a number of underlying assumptions regarding the choice of variable inputs and their dependencies. Elements of the ECL model that are considered accounting judgements and estimates include:

- The Group's internal credit rating model, which assigns PDs to the individual grades;
- The Group's criterial for assessing if there has been a significant increase in credit risk so allowances for financial assets should be measured on a lifetime ECL basis and qualitative assessment;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including various formulas and choice of inputs;
- Determination of associations between macroeconomic scenarios and, economic inputs, and the effect on PDs, EADs and LGDs; and
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

The Group has the policy to regularly review its model in the context of actual loss experience and adjust when necessary.

Impairment losses on financing receivables – as per CBK guidelines

The Group reviews its financing receivables on a regular basis to assess whether an impairment loss should be recorded in the consolidated statement of profit or loss. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required.

Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty.

Valuation of investment properties

The fair value of investment properties is determined by real estate valuation experts using recognised valuation techniques and the principles of IFRS 13 Fair Value Measurement.

Investment properties under construction are measured based on estimates prepared by independent real estate valuation experts, except where such values cannot be reliably determined. The significant methods and assumptions used by valuers in estimating the fair value of investment properties are set out in Note 8.

Fair value measurement

Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available). This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible but this is not always available. In that case, management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

2.5 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)
2.5.2 Estimation uncertainty (continued)

Leases - Estimating the incremental borrowing rate

The Group cannot readily determine the profit rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease.

The Group estimates the IBR using observable inputs (such as market profit rates) when available and is required to make certain entity-specific estimates.

3. CASH AND CASH EQUIVALENTS

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise the following at 31 December:

	2020 KD'000	2019 KD'000
Cash	**11,708**	3,725
Current account with the CBK	**90,396**	10,615
Current accounts with commercial banks	**8,895**	88,204
Total cash and bank balances	**110,999**	102,544
Placements with the CBK whose original maturity is within 3 months	**74,044**	27,101
Placements with banks whose original maturity is within 3 months	**257,990**	153,992
Total cash and cash equivalents	**443,033**	283,637

Placements with banks represent placements with reputable financial institutions with appropriate credit-ratings assigned by international credit-rating agencies.

4. FINANCING RECEIVABLES

Financing receivables mainly comprise of facilities extended to the customers of the Group in the form of Murabaha and Ijara contracts. Wherever necessary, financing receivables are secured by acceptable forms of collateral to mitigate the related credit risk.

	2020 KD'000	2019 KD'000
Murabaha receivables	**2,252,388**	2,083,870
Ijara receivables	**356,061**	304,759
Wakala receivables	**39,856**	18,662
Others	**14,631**	14,976
Less: deferred profit	**(123,394)**	(117,138)
Financing receivables before provision for impairment	**2,539,542**	2,305,129
Less: Provision for impairment as per CBK guidelines	**(42,176)**	(43,155)
	2,497,366	2,261,974

4. FINANCING RECEIVABLES(continued)

Further analysis of financing receivables, net of deferred profit, based on customer type is given below:

	2020 KD'000	2019 KD'000
Corporate	**1,576,475**	1,443,639
Individuals	**963,067**	861,490
Financing receivables before provision for impairment	**2,539,542**	2,305,129
Less: Provision for impairment as per CBK guidelines	**(42,176)**	(43,155)
	2,497,366	2,261,974

Movement in provision for impairment as per CBK instructions is as follows:

	31 December 2020		
	Specific provision KD'000	General provision KD'000	Total KD'000
Cash facilities			
As at 1 January 2020	**14,591**	**28,564**	**43,155**
Provision charged during the year	**37,102**	**11,169**	**48,271**
Written off balances during the year	**(48,797)**	**-**	**(48,797)**
Foreign currency movement	**(409)**	**(44)**	**(453)**
At 31 December 2020	**2,487**	**39,689**	**42,176**
Non-cash facilities			
As at 1 January 2020	**5,275**	**809**	**6,084**
Provision charged during the year	**(1,641)**	**-**	**(1,641)**
Foreign currency movement	**-**	**-**	**-**
At 31 December 2020	**3,634**	**809**	**4,443**
Total facilities			
As at 1 January 2020	**19,866**	**29,373**	**49,239**
Provision charged during the year (Note 17)	**35,461**	**11,169**	**46,630**
Written off balances during the year	**(48,797)**	**-**	**(48,797)**
Foreign currency movement	**(409)**	**(44)**	**(453)**
At 31 December 2020	**6,121**	**40,498**	**46,619**

4. FINANCING RECEIVABLES(continued)

	31 December 2019		
	Specific provision KD'000	General provision KD'000	Total KD'000
Cash facilities			
As at 1 January 2019 calculated under IFRS 9 according to the CBK guidelines	**9,173**	**21,165**	**30,338**
Reclassification*	**(1,403)**	**-**	**(1,403)**
Balance after reclassification	**7,770**	**21,165**	**28,935**
Provision charged during the year	**11,416**	**7,419**	**18,835**
Written off balances during the year	**(4,595)**	**-**	**(4,595)**
Foreign currency movement	**-**	**(20)**	**(20)**
At 31 December 2019	**14,591**	**28,564**	**43,155**
Non-cash facilities			
As at 1 January 2019 calculated under IFRS 9 according to the CBK guidelines	**3,700**	**603**	**4,303**
Reclassification*	**1,403**	**-**	**1,403**
Balance after reclassification	**5,103**	**603**	**5,706**
Provision charged during the year	**172**	**206**	**378**
Foreign currency movement	**-**	**-**	**-**
At 31 December 2019	**5,275**	**809**	**6,084**
Total facilities			
As at 1 January 2019 calculated under IFRS 9 according to the CBK guidelines	**12,873**	**21,768**	**34,641**
Provision charged during the year (Note 17)	**11,588**	**7,625**	**19,213**
Written off balances during the year	**(4,595)**	**-**	**(4,595)**
Foreign currency movement	**-**	**(20)**	**(20)**
At 31 December 2019	**19,866**	**29,373**	**49,239**

* During the prior year ended 31 December 2019, an amount of KD 1,403 thousand has been reclassified between cash and non-cash facilities provisions balances.

As at 31 December 2020, the expected credit losses calculated as per IFRS 9 according to the CBK guidelines amounted to KD 40,614 thousand, which is less than provisions computed as required by the CBK guidelines amounting to KD 46,619 thousand.

As at 31 December 2019, the expected credit losses calculated as per IFRS 9 according to the CBK guidelines amounted to KD 40,988 thousand, which is less than provisions computed as required by the CBK guidelines amounting to KD 49,239 thousand.

The available provision balance on non-cash facilities of KD 4,443 thousand (2019: KD 6,084 thousand) is included under other liabilities.

5. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2020 KD'000	2019 KD'000
Quoted equity instruments	**15,580**	7,536
Funds (unquoted)	**57,792**	35,267
Other securities (unquoted)	**17,557**	13,092
	90,929	55,895

The hierarchy for determining and disclosing the fair values of financial instruments by valuation techniques are presented in Note 24.

6. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2020 KD'000	2019 KD'000
Quoted Sukuk	**225,209**	311,159
Unquoted Sukuk	**6,303**	6,398
Unquoted equity instruments	**5,538**	5,505
	237,050	323,062

During the year ended 31 December 2020, the management has performed a review of the financial assets at fair value through other comprehensive income to assess the ECL. Based on the assessment, the management has recognised a reversal of ECL of KD 979 thousand (2019: ECL of KD 682 thousand) in the consolidated statement of profit or loss for the year (Note 17).

The hierarchy for determining and disclosing the fair values of financial instruments by valuation techniques are presented in Note 24.

Investments in debt instruments are subject to ECL. An analysis of changes in the gross carrying amount and the corresponding ECL in relation to investment in debt instruments is as follows:

	31 December 2020			
	Stage 1 KD'000	**Stage 2 KD'000**	**Stage 3 KD'000**	**Total KD'000**
Gross carrying amount as at 1 January 2020	**313,546**	**4,011**	**-**	**317,557**
New assets purchased (payments and assets derecognised during the year), net	**(89,563)**	**-**	**-**	**(89,563)**
Transfer between stages	**(5,280)**	**5,175**	**105**	**-**
Foreign exchange adjustments	**3,524**	**(6)**	**-**	**3,518**
At 31 December 2020	**222,227**	**9,180**	**105**	**231,512**

6. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (continued)

	31 December 2020			
	Stage 1 KD'000	**Stage 2 KD'000**	**Stage 3 KD'000**	**Total KD'000**
ECL allowance as at 1 January 2020	**1,526**	**109**	**-**	**1,635**
Impact due to purchase/de-recognition	**(462)**	**(53)**	**-**	**(515)**
Impact on year end ECL of exposures transferred between stages during the year	**(48)**	**-**	**48**	**-**
Re-measurement of ECL	**(464)**	**-**	**-**	**(464)**
At 31 December 2020	**552**	**56**	**48**	**656**

	31 December 2019			
	Stage 1 KD'000	Stage 2 KD'000	Stage 3 KD'000	Total KD'000
Gross carrying amount as at 1 January 2019	137,219	5,874	-	143,093
New assets purchased (payments and assets derecognised during the year), net	176,266	(1,865)	-	174,401
Transfer between stages	-	-	-	-
Foreign exchange adjustments	61	2	-	63
At 31 December 2019	313,546	4,011	-	317,557

	31 December 2019			
	Stage 1 KD'000	Stage 2 KD'000	Stage 3 KD'000	Total KD'000
ECL allowance as at 1 January 2019	759	194	-	953
Impact due to purchase/de-recognition	725	(58)	-	667
Impact on year end ECL of exposures transferred between stages during the year	-	-	-	-
Re-measurement of ECL	42	(27)	-	15
At 31 December 2019	1,526	109	-	1,635

7. INVESTMENT IN JOINT VENTURES

The Group's interest in joint ventures is accounted for using the equity method in the consolidated financial statements. Summarised financial information of the joint ventures, based on its IFRS financial statements, and reconciliation with the carrying amount of the investment in the consolidated financial statements are set out below:

	2020 KD'000	2019 KD'000
As at 1 January	**91,007**	52,498
Additions	**13,084**	35,550
Share of results (Note 14)	**8,536**	7,272
Distributions received	**(5,388)**	(4,159)
Foreign currency translation adjustment	**1,001**	(154)
As at 31 December	**108,240**	91,007

WARBA BANK

7. INVESTMENT IN JOINT VENTURES (continued)

The following table illustrates summarised financial information of the Group's investment in the joint ventures:

	2020 KD'000	2019 KD'000
Summarised statement of financial position of the joint ventures:		
Current assets	**4,389**	33
Non-current assets	**103,903**	91,037
Current liabilities	**(52)**	(63)
Equity	**108,240**	91,007
Group's share in equity	**108,240**	91,007
Group's carrying amount of the investment	**108,240**	91,007
Summarised statement of profit or loss of the joint ventures:		
Revenue	**8,682**	7,523
Administrative and other expenses	**(146)**	(251)
Profit for the year (continuing operations)	**8,536**	7,272
Group's share of profit for the year	**8,536**	7,272

The joint ventures had no capital commitments as at 31 December 2020 (2019: KD 5,783 thousand) and no contingent liabilities as at 31 December 2020 and 2019.

8. INVESTMENT PROPERTIES

	2020 KD'000	2019 KD'000
Opening balance at 1 January	**20,798**	22,867
Reclassification from property and equipment	**13,165**	-
Sale during the year	**(5,233)**	(2,198)
Fair value adjustment to investment properties (Note 14)	**941**	(221)
Foreign currency translation adjustment	**368**	350
Closing balance at 31 December	**30,039**	20,798

The fair value of investment properties is determined based on valuations performed by independent and accredited valuers with recognised and relevant professional qualification and with recent experience in locations and categories of investment properties being valued. The valuation models applied are consistent with the principles in IFRS 13 and fair value is determined using a mix of the income capitalisation method and the market comparison approach considering the nature and usage of each property. Fair value using the income capitalisation method is estimated based on the normalised net operating income generated by the property, which is divided by the capitalisation (discount) rate. Under the market comparison approach, fair value is estimated based on comparable transactions. The unit of comparison applied by the Group is the price per square meter ('sqm'). Based on these valuations, the fair value of investment properties witnessed an increase of KD 941 thousand compared to its carrying values as at 31 December 2020 (2019: decrease of KD 221 thousand).

Significant increases (decreases) in estimated price per square metre in isolation would result in a significantly higher (lower) fair value on a linear basis.

Significant increases (decreases) in estimated rental value and rent growth per annum in isolation would result in a significantly higher (lower) fair value of the properties. Significant increases (decreases) in the long-term vacancy rate and discount rate (and exit yield) in isolation would result in a significantly lower (higher) fair value.

8. INVESTMENT PROPERTIES (continued)

The fair value of the investment properties is classified as a level 2 fair value since no significant adjustments need to be made to the prices obtained from the local markets.

Generally, a change in the assumption made for the estimated rental value is accompanied by a directionally similar change in the rent growth per annum and discount rate (and exit yield), and an opposite change in the long term vacancy rate.

	2020 KD'000	2019 KD'000
Rental income derived from investment properties	**1,082**	1,377
Direct operating expenses	**(221)**	(389)
Net rental income arising from investment properties (Note 14)	**861**	988

The Group has no restrictions on the realisability of its investment properties and no contractual obligations to either purchase, construct or develop investment properties or for repairs, maintenance and enhancements.

9. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

Due to banks and other financial institutions represents deposits received from banks and other financial institutions under Wakala and Murabaha contracts.

10. DEPOSITORS' ACCOUNTS

Depositors' accounts of the Group comprise of the following:

- Non-investment deposits in the form of current accounts

These deposits are not entitled to any profits nor do they bear any risk of loss as the Group guarantees to pay the related balances on demand. Accordingly, these deposits are considered Qard Hasan from depositors to the Group.

- Investment deposits

These include Mudaraba, Murabaha and Wakala deposits, which have fixed maturity as specified in the term of the contract except for investment saving accounts which are valid for an unlimited period.

11. SUKUK ISSUED

On 24 September 2019, the Bank completed the series 1 issue of unsecured Sukuk (senior debt) amounting to US$ 500 million with a tenor of up to 5 years maturing on 24 September 2024. Such sukuk has a fixed coupon rate of 2.982% per annum, payable semi-annually in arrears. The Sukuk is listed on the Irish Stock Exchange (Euronext Dublin) and NASDAQ Dubai.

On 17 June 2020, the Bank completed the issuance of an unsecured Sukuk (senior debt) amounting to KD 150 million with a tenor of up to 5 years maturing on 17 June 2025. Such sukuk has a coupon rate of 1% per annum over the CBK discount rate, payable semi-annually in arrears. The Sukuk is listed on the Irish Stock Exchange (Euronext Dublin).

12. EQUITY

The authorised, issued, and fully paid share capital as at 31 December 2020 comprise of 1,575,000 thousand shares (2019: 1,500,000 thousand shares) of 100 fils each.

The ordinary general assembly meeting ("AGM") of the Bank's shareholders held on 20 April 2020 approved to a bonus shares issue of 5% of the authorised, issued, and fully paid share capital for the year ended 31 December 2019 (2018: Nil%).

WARBA BANK

12. EQUITY (continued)

No cash dividends were declared for the year ended 31 December 2019 (2018: Nil).

The extra-ordinary general assembly ("EGM") of the Bank's shareholders held on 27 April 2020 approved the increase of Bank's authorised, issued, and fully paid share capital by issuing 75,000 thousand bonus shares at 5% of the authorised and paid-up share capital (i.e. 5 shares for each 100 shares) amounting to KD 7,500 thousand to the shareholders registered in the Bank's records as at the end of the record date scheduled on 4 June 2020.

Statutory reserve

In accordance with the Companies' Law, and the Bank's Memorandum of Incorporation and Articles of Association, a minimum of 10% of the profit for the year before contribution to KFAS, NLST, Zakat and Directors' remunerations shall be transferred to the statutory reserve. The Annual General Assembly of the Bank may resolve to discontinue such transfer when the reserve exceeds 50% of the issued share capital. The reserve may only be used to offset losses or enable the payment of a dividend up to 5% of paid-up share capital in years when profit is not sufficient for the payment of such dividend due to absence of distributable reserves. Any amounts deducted from the reserve shall be refunded when the profits in the following years suffice, unless such reserve exceeds 50% of the issued share capital.

No transfer has been made to the statutory reserve during the current year ended 31 December 2020 due to accumulated losses. An amount of KD 1,745 thousand was transferred to the statutory reserve during the prior year ended 31 December 2019.

Voluntary reserve

In accordance with the Bank's Articles of Association and Memorandum of Incorporation, a percentage is deducted for voluntary reserve based on proposal of the Board of Directors and subject to approval of the Annual General Assembly. Such transfers may be discontinued by a resolution of the ordinary general assembly upon a proposal by the Board of Directors and the CBK approval.

In accordance with the Companies' Law, a maximum of 10% of the profit for the year before contribution to KFAS, NLST, Zakat and Directors' remuneration, is eligible to be transferred to the voluntary reserve by a resolution of the Annual General Assembly upon a proposal by the Board of Directors in order to accumulate a voluntary reserve allocated for purposes specified by the Annual General Assembly.

Based on the proposal of the Board of Directors, no transfers have been made to the voluntary reserve in the current and prior year.

Proposed distributions

	2020 **KD'000**	2019 KD'000
Proposed bonus shares:		
Proposed bonus shares for 2020: Nil shares for each Nil shares		
(2019: 5 shares for each 100 shares)	-	7,500

13. PERPETUAL TIER 1 SUKUK

On 14 March 2017, the Bank, through a Shari'a compliant Sukuk arrangement, issued Tier 1 Sukuk amounting to USD 250 million. Tier 1 Sukuk is a perpetual security in respect of which there is no fixed redemption date and constitutes direct, unsecured, subordinated obligations (senior only to share capital) of the Bank subject to the terms and conditions of the Mudaraba Agreement. The Tier 1 Sukuk is listed on the Irish Stock Exchange and NASDAQ Dubai and callable by the Bank after five-year period ending 14 March 2022 (the "First Call Date") or any profit payment date thereafter subject to certain redemption conditions.

13. PERPETUAL TIER 1 SUKUK (continued)

The net proceeds of Tier 1 Sukuk are invested by way of Mudaraba with the Bank (as Mudareb), on an unrestricted co-mingling basis, by the Bank in its general business activities carried out through the general Mudaraba pool. Tier 1 Sukuk bears a profit rate of 6.5% per annum to be paid semi-annually in arrears until the First Call Date. After that, the expected profit rate will be reset based on then prevailing 5 years U.S Mid Swap Rate plus initial margin of 4.374% per annum.

At the Bank's sole discretion, it may elect not to make any Mudaraba distributions expected and in such event, the Mudaraba profit will not be accumulated and the event is not considered an event of default. The Bank made profit payments during the year on 12 March and 10 September 2020.

14. NET INVESTMENT INCOME

	2020 KD'000	2019 KD'000
Realised gain on sale of debt instruments at fair value through other comprehensive income	**7,903**	215
Realised gain on sale of financial assets at fair value through profit or loss	**2,100**	23
Share of results of investment in joint ventures (Note 7)	**8,536**	7,272
Dividend income	**2,132**	2,176
Net rental income from investment properties (Note 8)	**861**	988
Gain on sale of investment property	**2,045**	61
Fair value adjustment to financial assets at fair value through profit or loss	**1,154**	(2,358)
Fair value adjustment to investment properties (Note 8)	**941**	(221)
Other investment income (loss)	**580**	(272)
	26,252	7,884

15. NET FEES AND COMMISSION INCOME

Net fees and commission income includes financing syndication fees earned on the successful completion of syndicated deals by the Group amounting to KD 1,491 thousand (2019: KD 2,531 thousand).

16. OTHER INCOME

In an attempt to mitigate the impact of the Covid-19 pandemic, the Government of Kuwait has introduced measures to aid private entities in response to the pandemic. These measures include government assistance made towards national workforce in the private sector for a period of up to six months effective from June 2020.

The financial support amounting to KD 1,486 thousand is accounted for in accordance with IAS 20 'Accounting for Government Grants and Disclosures of Government Assistance' and recognised in profit or loss as 'other income' on a systematic basis over the periods in which the Bank recognises expenses for the related staff costs.

	2020 KD'000	2019 KD'000
(Reversal of) provision for expected credit losses for investments in Sukuk (Note 6)	**(979)**	682
Reversal of expected credit losses for placements with banks	**(64)**	(8)
Provision for impairment as per CBK guidelines on credit facilities (Note 4)	**46,630**	19,213
Impairment on other assets	**1,051**	21
	46,638	19,908

18. BASIC AND DILUTED EARNINGS PER SHARE (EPS)

Basic EPS amounts are calculated by dividing the profit for the year attributable to ordinary equity holders of the Bank adjusted for profit paid on Perpetual Tier 1 Sukuk by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is calculated by dividing the profit attributable to ordinary equity holders of the Bank by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares. As there are no dilutive instruments outstanding, basic and diluted earnings per share are identical.

	2020	2019
Net profit for the year (KD'000)	**5,634**	16,538
Less: profit payment on Perpetual Tier 1 Sukuk (KD'000)	**(4,981)**	(4,943)
	653	11,595
Weighted average number of shares outstanding ('000)	**1,575,000**	1,575,000
Basic and diluted earnings per share (fils)	**0.41**	7.36

The comparative basic and diluted earnings per share have been restated to reflect the impact of bonus shares issued in 2020 (Note 12).

There have been no transactions involving ordinary shares between the reporting date and the date of authorisation of this consolidated financial statements which would require the restatement of EPS.

19. RELATED PARTY DISCLOSURES

Related parties comprise the major shareholders, board of directors, entities controlled by them or under their joint control, associates, key management personnel and their close family members. Balances with related parties arise from commercial transactions in the normal course of business on terms approved by the management.

19.1. Remuneration of the Bank's key management personnel:

Key management personnel are those individuals who have the authority and responsibility for planning and exercising power to directly or indirectly control the activities of the Bank and its employees. The Bank considers the members of the Board of Directors (and its sub-committees) and Executive Committee to be key management personnel for the purposes of IAS 24 Related Party Disclosures.

	2020 KD'000	2019 KD'000
Salaries and benefits	**1,874**	2,297
End of service benefits	**196**	153
Directors' remuneration*	**94**	259
	2,164	2,709

*Directors' remuneration includes special compensation for additional contributions related to participation in the executive committees in accordance with board of directors' decisions.

Board of directors' remuneration for the year ended 31 December 2020 is subject to the approval of the annual general assembly meeting (AGM).

The AGM of the shareholders of the Bank for the year ended 31 December 2019 held on 20 April 2020 approved the directors' fees proposed for the year ended 31 December 2019 of KD 125 thousand.

19. RELATED PARTY DISCLOSURES (continued)

19.2. Transactions with Bank's key management personnel and board of directors' members:

The Bank enters into transactions, arrangements and agreements involving senior management, board of directors' members, and their controlled business, or close family members, in the ordinary course of business under the same commercial and market terms, profit and commission rates that apply to non-related parties.

The following table shows the total amount of transactions, which have been entered into with key management personnel and board of directors' members for the relevant financial year which are included in the consolidated statement of financial position:

	2020 KD'000	2019 KD'000
Financing facilities	**1,480**	1,439
Credit cards	**8**	4
Depositors' accounts	**1,613**	6,810

The transactions with related parties included under the contingent liabilities are as follows:

	2020 KD'000	2019 KD'000
Letter of guarantees	**4**	4

The number of the board members and executive officers is, as follows:

	2020	2019
Financing facilities	**6**	6
Credit cards	**8**	5
Depositors' accounts	**50**	44
Letter of guarantees	**1**	1

The transactions with related parties which are included in the consolidated statement of profit or loss are, as follows:

	2020 KD'000	2019 KD'000
Placements and finance income	**73**	90
Finance costs and distributions to depositors	**74**	67

19.3. Transactions with major shareholders and other related parties:

In addition to transactions with key management personnel and board of directors' members, the Bank enters into transactions with major shareholders and other entities which the Bank has direct or indirect control, including common control, joint control and significant influence.

Balances recorded in the consolidated statement of financial position are as follows:

	Outstanding balances as at		
	Major shareholders KD'000	**Other related parties KD'000**	**Total 31 December 2020 KD'000**
Depositors' accounts	**552,054**	**279**	**552,333**

WARBA BANK

19. RELATED PARTY DISCLOSURES (continued)

19.3. Transactions with major shareholders and other related parties (continued)

	Outstanding balances as at		
	Major shareholders KD'000	Other related parties KD'000	Total 31 December 2019 KD'000
Depositors' accounts	871,968	893	872,861

The number of major shareholders and other related parties is as follows:

2020	No. of major shareholders	No. of other related parties
Depositors' accounts	**2**	**30**
2019		
Depositors' accounts	2	30

Transactions with related parties recorded in the consolidated statement of profit or loss are as follows:

	Transactions values during the year ended		
	Major shareholders KD'000	**Other related parties KD'000**	**Total 31 December 2020 KD'000**
Finance costs and distributions to depositors	**10,677**	**-**	**10,677**

	Transactions values during the year ended		
	Major shareholders KD'000	Other related parties KD'000	Total 31 December 2019 KD'000
Finance costs and distributions to depositors	20,531	-	20,531

Outstanding balances at year-end are in the ordinary course of business. The profit rates charged to, and by, related parties are at normal commercial rates. Except for guarantees of KD 2,764 thousand received for related party receivables, there are no guarantees provided for related party payables during the year ended 31 December 2020 (2019: KD 2,995 thousand).

20. COMMITMENTS AND CONTINGENT LIABILITIES

	2020 KD'000	2019 KD'000
Acceptances and letters of credit	**38,751**	52,210
Letter of guarantees	**127,647**	115,030
Contingent liabilities	**166,398**	167,240
Capital commitments	**104,668**	28,816

As at 31 December 2020, irrevocable commitments to extend credit amounted to KD 15,093 thousand (2019: KD 9,868 thousand). These include commitments to extend credit which are irrevocable over the life of the facility or are revocable only in response to a material adverse change.

These credit commitments do not necessarily represent future cash requirements, since many of these commitments will

20. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

expire or terminate without being funded. Credit losses, if any, which may result from exposure to such commitments are not expected to be significant.

21. RISK MANAGEMENT

Risk is inherent in all activities of the Group and is managed through a process of ongoing identification, measurement, mitigation and monitoring, subject to risk appetite limits and other controls. This process of risk management is critical to the Group's financial health and continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Group has exposure to the following risks from financial instruments:

- Credit risk
- Market risk
- Liquidity risk
- Operational risk

In addition, there are other risk types that need to be monitored and controlled. This note presents information about the Group's exposure to each of the risks, the Group's framework of policies, models and quantification techniques and processes for identifying, measuring, mitigating, monitoring and managing risk, and the management of Group's capital.

This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non–trading risks. It is also subject to country risk and various operating and business risks.

21.1. Risk management structure

Board of Directors

The Board of Directors (the 'Board') has overall responsibility for the establishment and oversight of Risk Management function. The Board has established a Board Risk Committee (the 'BRC') comprising of members from the Board, to set the framework and monitor the Bank's Risks and Control related requirements covering all risk types like credit, market, liquidity risks and operational risk. The Board Risk Committee is assisted in these functions by the Chief Risk Officer.

The Board has also established a Board Audit Committee (the 'BAC'), as required by the Central Bank of Kuwait, which, amongst other functions, is also required to monitor adherence with the Group's Risk Management principles, policies and procedures, and for reviewing the adequacy of the Risk Management framework. The Group Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Group Audit Committee.

Risk Management Group

An independent Risk Management Group headed by the Chief Risk Officer (the 'CRO') reports to the BRC, responsible for enterprise-wide risks, to assist the Board of Directors and BRC in carrying out the risk oversight responsibility.

Risk management policies are established to identify, quantify, control, mitigate, and analyse the risks faced by the Group to set appropriate risk limits and controls and to monitor risks and ensure adherence to the risk appetite limits. Risk management policies and systems are subject to review regularly, on an ongoing basis, to reflect changes in economic environment, market conditions, products and services offered by the Group.

21.2. Credit risk

Credit risk is the risk that one party to a financial instrument will fail or delay to discharge an obligation and cause the

21. RISK MANAGEMENT (continued)
21.2. Credit risk (continued)

other party to incur a financial loss. This includes the risk of decline in the credit standing of the customer. While such decline does not imply default, it increases the probability of the customer defaulting. Financial instruments that create credit risk include financing receivables and commitments to extend credit and investment in debt instruments (i.e. Sukuk).

For risk management control purposes, the Group considers and consolidates all elements of credit risk exposure such as individual obligor default risk, country risk and sector risk in one measure about the riskiness of an exposure.

Credit risk management

The Group's Board has approved Financing and Investment policies for various business groups and investment asset types. The Board has also approved the Executive Credit and Investment Committee (the 'ECIC') Charter, which is empowered for initial screening of proposals and approval within its delegated authorities. The Board has also constituted the Board Credit and Investment Committee (the 'BCIC') which by virtue of its Charter, is the next level of authority which provides guiding principles and approves the various financing and investment proposals on behalf of the Board of the Group.

The Risk Management Group provides independent opinion and assessment of risk for every financing and investment proposal presented to the approving authorities for decision making.

The Group manages its credit facilities portfolio with the objective of ensuring that it is well diversified and it earns a level of return commensurate with the risks it assumes, at the same time, seeks to ensure the quality of the credit portfolio.

In addition, the Group endeavors to manage the credit exposure by obtaining collateral where appropriate and limiting the tenor of exposure or structures that are beneficial to the overall risk profile of the Group's credit risk exposure.

As required by the CBK, the Group has established a Provisioning Committee, at the executive level which is primarily responsible for the study and evaluation of the existing credit facilities and investments of the Group, to identify any abnormal situations and difficulties associated with a customer's position which may require the exposure to be classified as irregular, and to determine an appropriate provisioning required for impaired/ potential impairment of assets and investments.

Assessment of expected credit losses

Definition of default and cure

The Group considers a financial asset to be in default and therefore Stage 3 (credit impaired) for ECL calculations when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as transferring collateral (if any is held); or
- the borrower is past due more than 90 days on any material credit obligation to the Group; or
- borrower is considered as credit impaired based on qualitative assessment for internal credit risk management purposes

Any credit impaired or stressed facility that has been restructured during the year would also be considered as in default. The Group considers externally-rated exposures with ratings 'D' for S&P and Fitch, and 'C' for Moody's as defaulted.

The Group considers a variety of indicators that may indicate unlikeliness to pay as part of a qualitative assessment of whether a customer is in default. Such indicators include:

- breaches of covenants
- borrower having past due liabilities to public creditors or employees
- borrower is deceased

21. RISK MANAGEMENT (continued)
21.2. Credit risk (continued)

Significant increase in credit risk

The Group continuously monitors all assets subject to ECL. In order to determine whether an instrument or a portfolio of instruments is subject to 12 months ECL or life time ECL, the Group assess whether there has been a significant increase in credit risk since initial recognition. The Group applies a consistent quantitative criterion for internally and externally rated portfolio to assess significant increase in credit risk.

Internal rating and Probability of Default (PD) estimation process

In managing its portfolio, the Group utilises ratings and other measures and techniques which seek to take account of all aspects of perceived risk. The Group uses Moody's CreditLens (MC) as its internal credit-rating engine. The MC tool provides the ability to analyse a business and produce risk ratings. The analysis supports the usage of financial factors as well as non-financial subjective factors. The Group also uses external ratings by recognised rating agencies for externally rated portfolios.

It is the Group's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Group' rating policy. The attributable risk ratings are assessed and updated regularly.

The standard requires the use of separate PD for a 12-month duration and lifetime duration depending on the stage allocation of the obligor. A PD used for IFRS 9 should reflect the Group's estimate of the future asset quality. The through the cycle (TTC) PDs are generated from MC based on the internal/external credit ratings. The Group converts the TTC PD to a point in time (PIT) PD term structures using appropriate models and techniques.

The Group assesses the PD for its retail portfolio through behavioural scorecards implemented in the Group. The scorecards are based on logistic regression technique. This enables the evaluation of score and PD associated against each facility. Term structure of PD is based on hazard rate concept. The survival distribution used is exponential distribution. The probability distribution function of an exponentially distributed random variable is used with the hazard rate as the PD evaluated from the Behavioural scorecard.

Incorporation of forward-looking information

The Group considers key economic variables that are expected to have an impact on the credit risk and the ECL in order to incorporate forward looking information into the ECL models. These primarily reflect reasonable and supportable forecasts of the future macro-economic conditions. The consideration of such factors increases the degree of judgment in determination of ECL. The Group employs statistical models to incorporate macro-economic factors on historical default rates. The Group considers 3 scenarios (baseline, upside and downside) of forecasts of macro-economic data and appropriate probability weights are applied to these scenarios to derive a probability weighted outcome of expected credit loss. The management reviews the methodologies and assumptions including any forecasts of future economic conditions on a regular basis.

Maximum exposure to credit risk without taking account of any collateral

The following table summarises the maximum exposure to credit risk for the components of the consolidated statement of financial position, including off-consolidated statement of financial position items. The maximum exposure is shown net of impairment, before the effect of mitigation through the use of master netting and collateral agreements, where applicable.

21. RISK MANAGEMENT (continued)

21.2. Credit risk (continued)

Maximum exposure to credit risk without taking account of any collateral (continued)

	Net maximum exposure	
	2020 KD'000	2019 KD'000
Balances with banks	**99,291**	98,819
Placements with banks and the CBK	**357,897**	225,703
Financing receivables	**2,497,366**	2,261,974
Financial assets at fair value through other comprehensive income (investment in Sukuk)	**231,512**	317,557
Other assets	**12,254**	14,681
	3,198,320	2,918,734
Acceptances and letters of credit	**38,557**	51,949
Letter of guarantees	**123,398**	109,207
Total	**161,955**	161,156
Total credit risk exposure	**3,360,275**	3,079,890

Where financial instruments are recorded at fair value, the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could give rise in the future as a result of changes in value.

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region or exposed to similar economic environment that would cause their ability to meet contractual obligations and be similarly impacted by changes in economic, political and/or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Group's performance to developments affecting similarly connected counterparties.

The maximum credit exposure to a single counterparty as at 31 December 2020 amounted to KD 75,748 thousand (2019: KD 78,507 thousand) before taking account of collateral.

Risk concentrations of the maximum exposure to credit risk

Geographical and industry sector concentrations of financial assets and off-consolidated statement of financial position items are as follows:

	2020		2019	
	Financial assets KD'000	**Off-balance sheet items KD'000**	Financial assets KD'000	Off-balance sheet items KD'000
Geographic region:				
Kuwait	**2,485,780**	**131,229**	2,036,014	131,788
Other Middle East	**608,823**	**6,601**	603,258	6,935
Rest of the World	**103,717**	**24,125**	279,462	22,433
	3,198,320	**161,955**	2,918,734	161,156

21. RISK MANAGEMENT (continued)

21.2. Credit risk (continued)

Risk concentrations of the maximum exposure to credit risk (continued)

	2020		2019	
	Financial assets KD'000	Off-balance sheet items KD'000	Financial assets KD'000	Off-balance sheet items KD'000
Industry sector:				
Banks and other financial institutions	780,818	12,101	796,240	6,020
Construction and Real Estate	1,059,812	84,781	971,357	76,776
Trading and Manufacturing	425,276	51,347	323,478	58,436
Personal	443,557	-	394,762	-
Services	279,840	13,655	239,204	19,782
Other	209,017	71	193,693	142
	3,198,320	161,955	2,918,734	161,156

Credit risk mitigation

Credit risk mitigation techniques that the Group is permitted to use are obtaining collateral where appropriate and limiting the tenor of exposure or structures that are beneficial to the Group's management of risks to an exposure.

Credit quality of financial instruments

For the year ended 31 December 2020, the Group classified the various credit risk exposure which are neither past due nor impaired into two categories of credit quality as under:

High quality: Credit exposures where the ultimate risk of financial loss from the obligor's failure to discharge its obligation is assessed to be low-to-moderate. These include exposures to entities with financial strength and risk factors indicative of capacity to repay all contractual obligations, and those exposures that are significantly collateralized with tangible securities.

Standard quality: All other exposures whose payment performance is fully compliant with contractual conditions and which are not impaired.

The tables below show the credit quality of assets by class and grade before deducting the provision for impairment.

	Neither past due nor impaired		Past due or impaired	
	High quality KD'000	Standard quality KD'000	KD'000	Total KD'000
2020				
Balances with banks	99,291	-	-	99,291
Placements with banks and the CBK	358,092	-	-	358,092
Financial assets at fair value through other comprehensive income (investment in Sukuk)	162,326	69,081	105	231,512
Other assets	10,586	1,738	1,100	13,424
	630,295	70,819	1,205	702,319

21. RISK MANAGEMENT (continued)

21.2. Credit risk (continued)

Risk concentrations of the maximum exposure to credit risk (continued)

Standard quality (continued)

	Neither past due nor impaired		Past due or impaired
	High quality KD'000	Standard quality KD'000	Total KD'000
2019			
Balances with banks	98,819	-	98,819
Placements with banks and the CBK	225,976	-	225,976
Financial assets at fair value through other comprehensive income (investment in Sukuk)	202,308	115,249	317,557
Other assets	11,568	3,228	14,796
	538,671	118,477	657,148

Disclosure of credit quality and the maximum exposure for credit risk of financing receivables per categories based on the Bank's internal credit rating system and year-end stage classification are further disclosed in Note 4.

Ageing analysis of past due but not impaired finance facilities by class of financial assets:

	Less than 30 days KD'000	31 to 60 days KD'000	61 to 90 days KD'000	Total KD'000
2020				
Financing receivables	**40,186**	**1,917**	**1,104**	**43,207**
2019				
Financing receivables	90,631	3,983	14,928	109,542

Collaterals

The amount and type of collaterals required depends on an assessment of the credit risk of the counterparty. Guidelines initiated by the Bank's risk management and credit committee are implemented regarding the acceptability of types of collateral and valuation parameters.

Management monitors the fair value of collateral and requests additional collateral in accordance with the underlying agreements when necessary.

The fair value of collateral that the Bank holds relating to past due or impaired finance facilities as at 31 December 2020 was KD 87,027 thousand (2019: KD 114,683 thousand). The collaterals consist of cash, securities, sukuk, letters of guarantee, real estate assets and other forms of collateral.

21.3. Market risk

Market risk emanates from the process of fair value or future cash flows of a financial instrument which fluctuates due to changes in market prices. Market risk may arise from open positions in profit rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market or prices such as profit rates, credit spreads, foreign exchange rates and equity prices.

21. RISK MANAGEMENT (continued)
21.3. Market risk (continued)

Market risk management

The Risk Management Group is responsible for development of detailed Market Risk Management framework and for the periodic review of their implementation, while it is the responsibility of the Treasury function to proactively manage and control market risk generated from various market positions in investments, financial instruments and over-the-counter deals.

The market risk framework comprises of the following elements:

- Limits for all market risk parameters and regular limits monitoring to ensure that Group does not exceed aggregate risk and concentration parameters set by the CBK limits and internal limits;
- Mark-to-market valuation based on independently published market data, and continuous review of all open positions; and
- Measuring Value-at-Risk for market sensitive positions and monitoring the same against established limits

The Group is required to comply with the guidelines and regulations of the CBK. The Market Risk policies and procedures and the market risk limits are periodically set and reviewed to ensure the implementation of the Group's market risk appetite.

21.3.1. Profit rate risk

Profit rate risk arises from the changes in profit rates affecting future cash flows or the fair value of the underlying financial exposure or instrument. The Group is susceptible to profit rate risk as value of Group's fixed income investments and/or return on financing are inversely proportional to movement in market rates. Moreover, change in profit rates might also impact Group's net earnings or earnings spread. The Group is not exposed to significant profit rate risk.

21.3.2. Prepayment risk

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier than expected, such as fixed rate financial exposures when profit rates fall. Due to the contractual terms of its Islamic products, the Group is not significantly exposed to prepayment risk.

21.3.3. Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is susceptible to currency risk as the Group's base currency is KD and all foreign currencies are revalued against KD. Any long or short open position in any currency exposes the Group to currency risk.

Currency risk is managed on the basis of limits determined by the CBK and a continuous assessment of the Group's open positions and current and expected exchange rate movements.

The tables below indicate the currencies to which the Group had significant exposure at 31 December on its non-trading monetary assets and liabilities and its forecasted cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the KD, with all other variables held constant, on profit or loss and equity (due to changes in fair value and foreign currency translation recognised in OCI).

21. RISK MANAGEMENT (continued)

21.3. Market risk (continued)

21.3.3. Currency risk (continued)

	2020			2019		
Currency	Change in currency rate %	Effect on profit or loss KD'000	Effect on equity KD'000	Change in currency rate %	Effect on profit or loss KD'000	Effect on equity KD'000
USD	±1	(1,880)	903	±1	(872)	733
EUR	±1	(132)	102	±1	(713)	100
GBP	±1	(186)	194	±1	(137)	136

21.3.4. Equity price risk

Equity price risk is the risk that the fair values of equities decrease as the result of change in the levels of equity prices and/ or indices and the value of individual stocks.

The Group conducts sensitivity analysis on regular intervals in order to assess the potential impact of any material change in fair value of listed equity instruments. For such investments, a five percent increase in stock prices as at 31 December 2020 would have increased equity by KD 779 thousand (2019: KD 377 thousand). An equal change in the opposite direction would have had equal, but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

21.4. Liquidity risk

Liquidity risk arises when the Group may be unable to meet its obligations associated with its financial liabilities. Liquidity risk can be caused by market disruptions, credit downgrades or market perception, which may cause certain sources of funding to dry up immediately. To limit this risk, the Group has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of High Quality Liquid Assets (HQLA) which could be used to secure additional funding and liquidity if and when required. The Group has in place a Contingency Funding Plan (CFP) to ensure required action is implemented in the event of any liquidity contingencies. ALCO is responsible for invoking the CFP.

Liquidity risk management

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Risk Management Group and Treasury monitor the Group's liquidity profile daily and take appropriate steps, if required. The Group's liquidity profile is monitored on daily basis; overall assets and liabilities as well as for KD and foreign currencies (FCY), on the Group's position in terms of Statutory Liquidity Ratio (SLR) as well as Lending to Deposit Ratio (LDR) and Liquidity Coverage Rate (LCR). Treasury co-ordinates with all business groups, details of projected cash flows required or arising from potential ensuing business opportunities.

Treasury is required to maintain a portfolio of short-term liquid assets, largely made up of short-term high-quality liquid investment securities and availability of inter-bank lines at short notice, to ensure that sufficient liquidity is maintained with the Group. Treasury's liquidity management is performed with most optimisation, taking into account the maturity gaps. The daily liquidity position is monitored and regular stress testing is conducted under a variety of scenarios covering the mild and more severe market conditions. All liquidity policies are subject to review by the ALCO and approved by the BRC. Periodic liquidity profile report, including any exceptions and remedial action required/taken, is reviewed by the ALCO. The Group is governed by the liquidity limits and maturity ladder profile as mandated by the CBK regulations and the CBK approved limits.

21. RISK MANAGEMENT (continued)

21.4. Liquidity risk (continued)

Liquidity risk management (continued)

The table below summarizes the maturity profile of the Group's assets and liabilities. The maturity profile of the assets and liabilities at the year-end are based on contractual repayment arrangement with the exception of some investments which are bucketed as per the CBK criteria.

The maturity profile of assets and liabilities as at 31 December is as follows:

2020	Within 3 months KD'000	3 to 6 months KD'000	6 to 12 months KD'000	Over 1 year KD'000	Total KD'000
Assets					
Cash and balances with banks	110,999	-	-	-	110,999
Placements with banks and the CBK	357,897	-	-	-	357,897
Financing receivables	1,441,008	498,314	125,253	432,791	2,497,366
Financial assets at fair value through profit or loss	-	-	-	90,929	90,929
Financial assets at fair value through other comprehensive income	7,600	3,200	10,268	215,982	237,050
Investments in joint ventures	-	-	-	108,240	108,240
Investment properties	-	-	-	30,039	30,039
Other assets	4,728	2,443	187	15,716	23,074
Property and equipment	-	-	-	19,660	19,660
	1,922,232	503,957	135,708	913,357	3,475,254
Liabilities					
Due to banks and other financial institutions	289,510	53,507	22,163	129,175	494,355
Depositors' accounts	1,503,677	395,128	431,209	23,440	2,353,454
Sukuk issued	-	-	-	302,429	302,429
Other liabilities	37,210	-	-	7,712	44,922
	1,830,397	448,635	453,372	462,756	3,195,160

21. RISK MANAGEMENT (continued)

21.4. Liquidity risk (continued)

Liquidity risk management (Continued)

2019	Within 3 months KD'000	3 to 6 months KD'000	6 to 12 months KD'000	Over 1 year KD'000	Total KD'000
Assets					
Cash and balances with banks	102,544	-	-	-	102,544
Placements with banks and the CBK	224,945	-	758	-	225,703
Financing receivables	1,266,542	523,682	79,395	392,355	2,261,974
Financial assets at fair value through profit or loss	-	-	-	55,895	55,895
Financial assets at fair value through other comprehensive income	13,647	14,727	-	294,688	323,062
Investments in joint ventures	-	-	-	91,007	91,007
Investment properties	-	-	-	20,798	20,798
Other assets	17,745	3,136	487	18,517	39,885
Property and equipment	-	-	-	22,803	22,803
	1,625,423	541,545	80,640	896,063	3,143,671
Liabilities					
Due to banks and other financial institutions	489,146	149,320	154,445	160,392	953,303
Depositors' accounts	939,671	513,180	225,463	27,497	1,705,811
Sukuk issued	-	-	-	152,179	152,179
Other liabilities	29,375	-	-	8,643	38,018
	1,458,192	662,500	379,908	348,711	2,849,311

The table below summarises the maturity profile of the Group's financial liabilities as at 31 December based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately.

2020	**Within 3 months KD'000**	**3 to 6 months KD'000**	**6 to 12 months KD'000**	**Over 1 year KD'000**	**Total KD'000**
Due to banks and other financial institutions	289,857	53,900	22,320	129,341	495,418
Depositors' accounts	1,508,540	429,517	403,885	28,360	2,370,302
Sukuk issued	-	-	-	326,149	326,149
Other liabilities	37,210	-	-	7,712	44,922
	1,835,607	483,417	426,205	491,562	3,236,791

2019	Within 3 months KD'000	3 to 6 months KD'000	6 to 12 months KD'000	Over 1 year KD'000	Total KD'000
Due to banks and other financial institutions	490,673	161,596	146,326	160,686	959,281
Depositors' accounts	943,611	518,874	231,500	30,434	1,724,419
Sukuk issued	-	-	-	174,155	174,155
Other liabilities	29,375	-	-	8,643	38,018
	1,463,659	680,470	377,826	373,918	2,895,873

21. RISK MANAGEMENT (continued)

21.4. Liquidity risk (continued)

Liquidity risk management (Continued)

The table below shows the contractual expiry by maturity of the Group's contingent liabilities and commitments:

2020	**Within 3 months KD'000**	**3 to 12 months KD'000**	**Over 1 year KD'000**	**Total KD'000**
Acceptances and letters of credit	**25,425**	**11,426**	**1,900**	**38,751**
Letter of guarantees	**26,138**	**37,957**	**63,552**	**127,647**
Capital commitments	**-**	**104,668**	**-**	**104,668**
	51,563	**154,051**	**65,452**	**271,066**

2019	Within 3 months KD'000	3 to 12 months KD'000	Over 1 year KD'000	Total KD'000
Acceptances and letters of credit	30,630	21,516	64	52,210
Letter of guarantees	23,037	46,625	45,368	115,030
Capital commitments	-	28,816	-	28,816
	53,667	96,957	45,432	196,056

21.5. Operational risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, systems failure, human error, or from external events. When controls fail to perform, it can have legal or regulatory implications, or lead to a financial or reputational loss.

Management of operational risk

The Group has a set of policies approved by the Board and are applied to identify, assess and supervise operational risk in addition to other types of risk relating to the banking and financial activities of the Group. Suitable operational risk procedures have been agreed with various groups and departments of the Group and implemented for effectively reporting, monitoring and controlling operational risks.

Operational risk is managed under the Risk Management Group. This group ensures compliance with policies and procedures to identify, assess, supervise and monitor operational risk as part of overall prudent and robust Risk Management Framework.

The Group manages operational risks in line with the CBK instructions regarding "General Guidelines for Internal Control Systems" and directives regarding "Sound Practices for the Management and Control of Operational Risks".

The Group has established its Business Continuity Management ("BCM") policy to meet any internal or external failures and eventualities enabling smooth functioning of the Group's operations.

The Group has established a Disaster Recovery ("DR") site for its IT infrastructure, and ensures that the operational risks from any potential disruption do not adversely impact the banking business. The Group pays special attention to operational risks that may arise from non-compliance to Sharia principles and any possible failure in fiduciary responsibilities.

22. SEGMENT INFORMATION

The Group's operating segments are determined based on the reports reviewed by the decision makers that are used for strategic decisions. These segments are strategic business units that offer different products and services. They are managed separately since the nature of the products and services, class of customers and marketing strategies of these segments are different.

These operating segments meet the criteria for reportable segments and are as follows:

• Corporate - comprising of range of banking services and investment products to corporate customers, in addition to providing commodity and real estate Murabaha finance and Ijara facilities.
• Retail - comprising of a diversified range of products and services to individual customers. The range includes consumer finance, credit cards, deposits and other branch related services.
• Treasury – comprising of Bank's funding operations management, local and international Murabaha and other Islamic financing primarily with banks and financial institutions.
• Investment - comprising of investment in direct equity, real estate investment and other investments.
• Other – comprising of cost center assets and expenses.

Management monitors the operating segments separately for the purpose of making decisions about resource allocation and performance assessment.

The following table presents operating income, results for the year and total assets information regarding the Group's reportable segments.

	Corporate KD'000	**Retail KD'000**	**Treasury KD'000**	**Investment KD'000**	**Other KD'000**	**Total KD'000**
2020						
Operating income	**39,679**	**14,165**	**3,355**	**21,595**	**-**	**78,794**
Net (loss) profit	**(8,165)**	**4,294**	**3,094**	**20,810**	**(14,399)**	**5,634**
Total assets	**2,053,066**	**444,300**	**620,464**	**314,691**	**42,733**	**3,475,254**
Total liabilities	**514,070**	**707,016**	**1,929,152**	**-**	**44,922**	**3,195,160**

	Corporate KD'000	Retail KD'000	Treasury KD'000	Investment KD'000	Other KD'000	Total KD'000
2019						
Operating income	43,212	10,378	(300)	6,472	-	59,762
Net (loss) profit	24,349	974	(485)	4,214	(12,514)	16,538
Total assets	1,866,249	399,451	515,321	299,963	62,687	3,143,671
Total liabilities	445,576	492,087	1,873,630	-	38,018	2,849,311

23. CAPITAL MANAGEMENT

The primary objectives of the Group's capital management are to ensure that the Group complies with regulatory capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholder value with appropriate risk level.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may review the

23. CAPITAL MANAGEMENT (continued)

amount of dividend payment to shareholders or issue capital securities.

Capital adequacy and the use of regulatory capital are monitored regularly by the Group's management and governed by guidelines of Basel Committee on Banking Supervision as adopted by the CBK.

The Group follows Basel III regulations and the Group's regulatory capital and capital adequacy ratios for the year ended 31 December 2020 are calculated in accordance with the CBK Circular number 2/RB, RBA/336/2014 dated 24 June 2014 and its amendments are shown below:

	2020 KD'000	2019 KD'000
Risk weighted assets	1,843,972	1,700,820
Capital required	193,617	221,107
Capital available		
Common equity Tier 1 "CET1" capital	**214,457**	217,997
Additional Tier 1 perpetual Sukuk	**76,363**	76,363
Total Tier 1 capital	**290,820**	294,360
Total Tier 2 capital	**21,592**	20,098
Total capital available	**312,412**	314,458
CETI capital adequacy ratio: common equity	**11.63%**	12.82%
Total Tier 1 capital adequacy ratio	**15.77%**	17.31%
Total capital adequacy ratio	**16.94%**	18.49%

The Group's financial leverage ratio for the year ended 31 December 2020 is calculated in accordance with the CBK Circular number 2/I.B.S. 343/2014 dated 21 October 2014 and its amendments and is shown below:

	2020 KD'000	2019 KD'000
Tier 1 capital	**290,820**	294,360
Total exposure	**3,675,938**	3,267,019
Financial leverage ratio	**7.91%**	9.01%

The disclosure relating to the capital adequacy regulations issued by the CBK as stipulated in the CBK Circular number 2/RB, RBA/336/2014 dated 24 June 2014 and its amendments and disclosures related to financial leverage ratio as stipulated in the CBK Circular number 2/I.B.S. 343/2014 dated 21 October 2014 and its amendments are included under the 'Risk Management' section in the annual report.

24. FAIR VALUE MEASUREMENT 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. Financial instruments comprise financial assets and financial liabilities.

Fair value hierarchy

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

- **Level 1:** quoted (unadjusted) prices in an active market for identical assets and 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**: other techniques which use inputs which have a significant effect on the recorded fair value are not based on observable market data.

24. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy (continued)

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

2020	**Total KD'000**	**Fair value measurement** Quoted prices in active markets (Level 1) KD'000	Significant observable inputs (Level 2) KD'000	Significant unobservable inputs (Level 3) KD'000
Assets measured at fair value				
Financial assets at FVTPL				
Quoted equity instruments	**15,580**	**15,580**	**-**	**-**
Funds (unquoted)	**57,792**	**-**	**-**	**57,792**
Other securities (unquoted)	**17,557**	**-**	**-**	**17,557**
	90,929	**15,580**	**-**	**75,349**
Financial assets at FVOCI **Quoted Sukuk**				
- Sovereign Sukuk	**160,834**	**160,834**	**-**	**-**
- Corporate Sukuk	**64,375**	**64,375**	**-**	**-**
	225,209	**225,209**	**-**	**-**
Unquoted Sukuk	**6,303**	**-**	**-**	**6,303**
Unquoted equity instruments	**5,538**	**-**	**-**	**5,538**
	237,050	**225,209**	**-**	**11,841**

2019	Total KD'000	Quoted prices in active markets (Level 1) KD'000	Significant observable inputs (Level 2) KD'000	Significant unobservable inputs (Level 3) KD'000
Assets measured at fair value				
Financial assets at FVTPL				
Quoted equity instruments	7,536	7,536	-	-
Funds (unquoted)	35,267	-	-	35,267
Other securities (unquoted)	13,092	-	-	13,092
	55,895	7,536	-	48,359
Financial assets at FVOCI				
Quoted Sukuk				
- Sovereign Sukuk	185,015	185,015	-	-
- Corporate Sukuk	126,144	126,144	-	-
	311,159	311,159	-	-
Unquoted Sukuk	6,398	-	-	6,398
Unquoted equity instruments	5,505	-	-	5,505
	323,062	311,159	-	11,903

24. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy (continued)

Movements in Level 3 financial instruments measured at fair value

The following table shows a reconciliation of the opening and closing amount of Level 3 financial assets.

2020	At 1 January 2020 KD'000	Additions KD'000	Sales/ redemptions KD'000	Change in fair value KD'000	Exchange rate movements KD'000	At 31 December 2020 KD'000
Financial assets at FVTPL						
Funds (unquoted)	**35,267**	**33,306**	**(10,568)**	**(99)**	**(114)**	**57,792**
Other securities (unquoted)	**13,092**	**4,451**	**(52)**	**(47)**	**113**	**17,557**
	48,359	**37,757**	**(10,620)**	**(146)**	**(1)**	**75,349**
Financial assets at FVOCI						
Unquoted Sukuk	**6,398**	**-**	**-**	**(99)**	**4**	**6,303**
Unquoted equity instruments	**5,505**	**-**	**-**	**33**	**-**	**5,538**
	11,903	**-**	**-**	**(66)**	**4**	**11,841**

The following table shows a reconciliation of the opening and closing amount of Level 3 financial assets.

2019	At 1 January 2019 KD'000	Additions KD'000	Sales/ redemptions KD'000	Change in fair value KD'000	Exchange rate movements KD'000	At 31 December 2019 KD'000
Financial assets at FVTPL						
Funds (unquoted)	26,430	14,078	(2,225)	(3,016)	-	6,398
Other securities (unquoted)	7,911	5,285	(112)	8	-	5,505
	34,341	19,363	(2,337)	(3,008)	-	11,903
Financial assets at FVOCI						
Unquoted Sukuk	8,108	-	(2,000)	295	(5)	6,398
Unquoted equity instruments	5,492	-	-	13	-	5,505
	13,600	-	(2,000)	308	(5)	11,903

There were no transfers between any levels of the fair value hierarchy during 2020 or 2019.

The fair value of financial instruments classified as level 3 are, in certain circumstances, measured using valuation techniques that incorporate assumptions that are not evidenced by the prices from observable current market transactions in the same instrument and are not based on observable market data. The Group employs valuation techniques, depending on the instrument type and available market data. For example, in the absence of active market, an investment's fair value is estimated on the basis of an analysis of the investee's financial position and results, risk profile and other factors. Favourable and unfavourable changes in the value of financial instruments are determined on the basis of changes in the value of the instruments as a result of varying the levels of the unobservable parameters, quantification of which is judgmental. The management assessed that the impact on profit or loss or other comprehensive income would be immaterial if the relevant risk variables used to fair value the financial instruments classified as Level 3 were altered by 5 percent.

For other financial assets and financial liabilities carried at amortised cost, the carrying value is not significantly different from their fair value as most of these assets and liabilities are of short-term maturity or are re-priced immediately based on market movement in profit rates.

25. IMPACT OF COVID-19

The Coronavirus ("COVID-19") pandemic has spread across various geographies globally, causing disruption to business and economic activities. COVID-19 has brought about uncertainties in the global economic environment, and governments and authorities have announced a host of support measures to counter possible adverse implications and contain or delay the spread of the virus.

COVID-19 support measures

In response to the crisis the 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 regulatory Liquidity Coverage Ratio (LCR) from 100% to 80%
- Decreased the regulatory 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 CET-1
- 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 financing receivables by banks at concessional profit rates to SMEs and other companies impacted by the COVID-19 (Emergency Line of Credit programme)

The Group is closely monitoring the situation and has activated its Business Continuity Planning and risk management practices to manage the potential business disruption COVID-19 outbreak may have on its operations and financial performance.

During the financial reporting year, oil prices have witnessed unprecedented volatility. The uncertainties caused by COVID-19, and the volatility in oil prices have required the Group to update the inputs and assumptions used for the determination of Expected Credit Losses ("ECLs") as at 31 December 2020. ECLs were estimated based on a range of forecast economic conditions as at that date and considering that the situation is fast evolving, the Group has considered the impact of higher volatility in the forward-looking macro-economic factors, when determining the severity and likelihood of economic scenarios for ECL determination. Further, Loss Given Default (LGD) and Exposure at Default (EAD) estimates have also been critically assessed. This assessment has considered several aspects including, the cash situation of clients, the value of collateral and the enforceability of guarantees.

Kuwait's authorities announced certain measures to provide support to the customers which include payment holidays and funding at concessional terms to certain customers in the consumer and instalment segment.

In accordance with IASB guidance, the extension of payment relief does not automatically trigger a Significant Increase in Credit Risk (SICR) and a stage migration for the purpose of calculating expected credit losses, as these measures are being

25. IMPACT OF COVID-19 (continued)

made available to assist borrowers affected by COVID-19 outbreak to resume regular payments. The 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.

The Group has 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.

Further, the Bank decided to postpone monthly payments for instalments of consumer financing, instalment financing and credit cards for all customers for a period of six months effective from April 2020 with waiving additional profits and charges during this period ("payment deferral program"). As a result, the Bank recalculated the gross carrying amount based on the revised cash flows of the financial assets and recognised a modification loss of KD 10.726 million charged to retained earnings in accordance with CBK's instructions as set out in Note 2.

International Rating

MOODY'S

Baa2

Fitch Ratings

A+