



**Kuwait International Bank K.S.C.P. and its Subsidiaries
State of Kuwait**

**Interim Condensed Consolidated Financial Information
30 September 2020 (Unaudited)**

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Building a better
working world

Ernst & Young
Al Aiban, Al Osaimi & Partners
P.O. Box 74
18–20th Floor, Baitak Tower
Ahmed Al Jaber Street
Safat Square 13001, Kuwait

Tel: +965 2295 5000
Fax: +965 2245 6419
kuwait@kw.ey.com
ey.com/mena

Deloitte.

**Deloitte & Touche
Al-Wazzan & Co.**

Ahmed Al-Jaber Street, Sharq
Dar Al-Awadi Complex, Floors 7 & 9
P.O. Box 20174, Safat 13062
Kuwait

Tel : + 965 22408844, 22438060
Fax: + 965 22408855, 22452080
www.deloitte.com

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

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Kuwait International Bank K.S.C.P. (the “Bank”) and its Subsidiaries (together the “Group”) as at 30 September 2020, and the related interim condensed consolidated statements of profit or loss and, profit or loss and other comprehensive income for the three and nine-month periods then ended, and the related interim condensed consolidated statement of changes in equity and cash flows for the nine-month period then ended. The management of the Bank is responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with the basis of presentation set out in Note 2. Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review.

Scope of Review

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

Conclusion

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

Report on Other Legal and Regulatory Requirements

Furthermore, based on our review, the interim condensed consolidated financial information is in agreement with the books of account of the Bank. We further report that, to the best of our knowledge and belief, we have not become aware of any violation of the Companies Law No. 1 of 2016, and its Executive Regulations, as amended, or of the Bank’s Memorandum of Incorporation and the Articles of Association, as amended, during the nine-month period ended 30 September 2020 that might have had a material effect on the business of the Bank or on its financial position.

**REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION
TO THE BOARD OF DIRECTORS OF KUWAIT INTERNATIONAL BANK K.S.C.P. (CONTINUED)**

Report on Other Legal and Regulatory Requirements (continued)

We further report that, during the course of our review, to the best of our knowledge and belief, we have not become aware of any violation of the provisions of Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organisation of banking business, and its related regulations, during the nine-month period ended 30 September 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



BADER A. AL-WAZZAN
LICENCE NO. 62A
DELOITTE & TOUCHE
AL-WAZZAN & CO.

10 November 2020
Kuwait

Kuwait International Bank K.S.C.P. and its Subsidiaries

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS (UNAUDITED)

Period ended 30 September 2020

		<i>KD 000's</i>			
		<i>Three months ended</i>		<i>Nine months ended</i>	
<i>Notes</i>		<i>30 September 2020</i>	<i>30 September 2019</i>	<i>30 September 2020</i>	<i>30 September 2019</i>
	Financing income	21,986	26,847	70,077	76,447
	Finance costs and estimated distribution to depositors	(8,549)	(13,288)	(32,686)	(36,520)
	Net financing income	13,437	13,559	37,391	39,927
	Fees and commission income	1,860	2,324	5,704	7,681
	Net gain from foreign exchange	154	143	571	628
	Investment income	794	529	1,698	3,056
	Other income	3,754	180	3,987	501
	TOTAL OPERATING INCOME	19,999	16,735	49,351	51,793
	Staff costs	(4,996)	(5,804)	(15,446)	(15,529)
	General and administrative expenses	(2,812)	(4,571)	(9,497)	(11,366)
	Depreciation	(1,107)	(921)	(3,137)	(2,723)
	TOTAL OPERATING EXPENSES	(8,915)	(11,296)	(28,080)	(29,618)
	Profit from operations before provisions and impairment losses	11,084	5,439	21,271	22,175
	Provisions and impairment losses	(10,566)	(2,119)	(20,577)	(8,681)
	PROFIT FROM OPERATIONS	518	3,320	694	13,494
	Provision for:				
	Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)	(4)	(30)	(5)	(124)
	National Labor Support Tax (NLST)	(4)	(75)	(12)	(322)
	Zakat	-	(29)	-	(128)
	PROFIT FOR THE PERIOD	510	3,186	677	12,920
	<i>Attributable to:</i>				
	Shareholders of the Bank	465	3,193	568	12,799
	Non-controlling interests	45	(7)	109	121
		510	3,186	677	12,920
	Basic and diluted earnings/ (loss) per share attributable to shareholders of the Bank	0.46 fils	3.13 fils	(2.00) fils	12.55 fils

The accompanying notes from 1 to 16 form an integral part of this interim condensed consolidated financial information.

Kuwait International Bank K.S.C.P. and its Subsidiaries

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (UNAUDITED)

Period ended 30 September 2020

	<i>KD 000's</i>			
	<i>Three months ended</i>		<i>Nine months ended</i>	
	30 September	<i>30 September</i>	30 September	<i>30 September</i>
	2020	<i>2019</i>	2020	<i>2019</i>
Profit for the period	510	3,186	677	12,920
Other comprehensive income/ (loss):				
<i>Items that may be reclassified to interim condensed consolidated statement of profit or loss</i>				
- Change in fair value of debt instruments at fair value through other comprehensive income	1,514	373	1,905	1,360
- Foreign currency translation adjustments	(480)	270	945	180
<i>Items that will not be reclassified to interim condensed consolidated statement of profit or loss</i>				
- Change in fair value of equity investments at fair value through other comprehensive income	1,459	(129)	(5,752)	721
Other comprehensive income/ (loss) for the period	2,493	514	(2,902)	2,261
Total comprehensive income/ (loss) for the period	3,003	3,700	(2,225)	15,181
<i>Attributable to:</i>				
Shareholders of the Bank	2,955	3,707	(2,329)	15,060
Non-controlling interests	48	(7)	104	121
Total comprehensive income/ (loss) for the period	3,003	3,700	(2,225)	15,181

The accompanying notes from 1 to 16 form an integral part of this interim condensed consolidated financial information.

Kuwait International Bank K.S.C.P. and its Subsidiaries

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

As at 30 September 2020

		<i>KD 000's</i>		
	<i>Notes</i>	30 September 2020	<i>31 December 2019</i> <i>(Audited)</i>	<i>30 September 2019</i>
ASSETS				
Cash and balances with banks		35,461	96,319	137,194
Due from banks	7	345,548	439,370	307,111
Financing receivables		2,003,572	1,865,618	1,748,252
Investment securities	14	191,620	179,886	133,651
Investment in associate		1,533	1,538	1,530
Investment properties		53,938	58,236	58,308
Other assets		21,735	15,611	15,393
Property and equipment		30,768	31,043	29,893
TOTAL ASSETS		<u>2,684,175</u>	<u>2,687,621</u>	<u>2,431,332</u>
LIABILITIES AND EQUITY				
LIABILITIES				
Due to banks and financial institutions	8	708,673	795,126	640,440
Depositors' accounts		1,577,019	1,469,574	1,376,888
Other liabilities		41,900	47,506	42,244
TOTAL LIABILITIES		<u>2,327,592</u>	<u>2,312,206</u>	<u>2,059,572</u>
EQUITY				
Share capital		113,275	107,881	107,881
Share premium		49,480	49,480	49,480
Treasury shares		(45,234)	(45,234)	(45,234)
Other reserves		144,333	168,663	165,063
Equity attributable to shareholders of the Bank		<u>261,854</u>	<u>280,790</u>	<u>277,190</u>
Perpetual Tier 1 Sukuk	15	91,035	91,035	91,035
Non-controlling interests		3,694	3,590	3,535
TOTAL EQUITY		<u>356,583</u>	<u>375,415</u>	<u>371,760</u>
TOTAL LIABILITIES AND EQUITY		<u>2,684,175</u>	<u>2,687,621</u>	<u>2,431,332</u>



Sheikh Mohammed Jarrah Al-Sabah
Chairman



Raed Jawad Bukhamseen
Vice Chairman and Chief Executive Officer

Kuwait International Bank K.S.C.P. and its Subsidiaries

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

Period ended 30 September 2020

	<i>Equity attributable to shareholders of the Bank</i>												<i>Perpetual Tier 1 Sukuk</i>	<i>Non- controlling interests</i>	<i>Total equity</i>
	<i>Other reserves</i>											<i>Total</i>			
	<i>Share capital</i>	<i>Share premium</i>	<i>Treasury shares</i>	<i>Statutory reserve</i>	<i>Voluntary reserve</i>	<i>Treasury shares reserve</i>	<i>Retained earnings</i>	<i>Fair valuation reserve</i>	<i>Revaluation surplus</i>	<i>Foreign currency translation adjustments</i>	<i>Total other reserves</i>				
Balance as at 1 January 2020	107,881	49,480	(45,234)	38,736	32,653	4,846	58,185	19,782	14,581	(120)	168,663	280,790	91,035	3,590	375,415
Profit for the period	-	-	-	-	-	-	568	-	-	-	568	568	-	109	677
Other comprehensive (loss)/ income	-	-	-	-	-	-	-	(3,842)	-	945	(2,897)	(2,897)	-	(5)	(2,902)
Total comprehensive income/ (loss)	-	-	-	-	-	-	568	(3,842)	-	945	(2,329)	(2,329)	-	104	(2,225)
Transfer due to disposals of investment at FVOCI	-	-	-	-	-	-	(1,079)	1,079	-	-	-	-	-	-	-
Modification loss on deferral of financing instalments (Note 2)	-	-	-	-	-	-	(7,203)	-	-	-	(7,203)	(7,203)	-	-	(7,203)
Dividends (Note 9)	-	-	-	-	-	-	(6,797)	-	-	-	(6,797)	(6,797)	-	-	(6,797)
Bonus shares (Note 9)	5,394	-	-	-	-	-	(5,394)	-	-	-	(5,394)	-	-	-	-
Profit paid on Perpetual Tier 1 Sukuk	-	-	-	-	-	-	(2,607)	-	-	-	(2,607)	(2,607)	-	-	(2,607)
Balance as at 30 September 2020	113,275	49,480	(45,234)	38,736	32,653	4,846	35,673	17,019	14,581	825	144,333	261,854	91,035	3,694	356,583
Balance as at 1 January 2019	103,732	49,480	(45,234)	36,891	30,808	4,846	61,967	15,763	14,937	-	165,212	273,190	-	3,414	276,604
Impact of adopting IFRS 16 at 1 January 2019	-	-	-	-	-	-	(33)	-	-	-	(33)	(33)	-	-	(33)
Balance as at 1 January 2019 (Restated)	103,732	49,480	(45,234)	36,891	30,808	4,846	61,934	15,763	14,937	-	165,179	273,157	-	3,414	276,571
Profit for the period	-	-	-	-	-	-	12,799	-	-	-	12,799	12,799	-	121	12,920
Other comprehensive income	-	-	-	-	-	-	-	2,081	-	180	2,261	2,261	-	-	2,261
Total comprehensive income	-	-	-	-	-	-	12,799	2,081	-	180	15,060	15,060	-	121	15,181
Dividends (Note 9)	-	-	-	-	-	-	(10,271)	-	-	-	(10,271)	(10,271)	-	-	(10,271)
Bonus shares (Note 9)	4,149	-	-	-	-	-	(4,149)	-	-	-	(4,149)	-	-	-	-
Issue of Perpetual Tier 1 Sukuk	-	-	-	-	-	-	-	-	-	-	-	-	91,035	-	91,035
Transaction cost on issue of Perpetual Tier 1 Sukuk	-	-	-	-	-	-	(756)	-	-	-	(756)	(756)	-	-	(756)
Balance as at 30 September 2019	107,881	49,480	(45,234)	36,891	30,808	4,846	59,557	17,844	14,937	180	165,063	277,190	91,035	3,535	371,760

The accompanying notes from 1 to 16 form an integral part of this interim condensed consolidated financial information.

Kuwait International Bank K.S.C.P. and its Subsidiaries

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

Period ended 30 September 2020

	Notes	<i>KD 000's</i>	
		<i>Nine months ended</i>	
		30 September 2020	<i>30 September 2019</i>
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the period		677	12,920
Adjustments for:			
Net gain from foreign exchange		(571)	(628)
Dividend income		(767)	(532)
Realised loss from sale of investment securities		39	152
Change in fair value of financial assets at fair value through profit or loss		(214)	(931)
Share of result from an associate		5	(12)
Gain from sale of investment properties		(59)	-
Rental income from investment properties		(702)	(1,733)
Depreciation		3,137	2,723
Provisions and impairment losses	5	20,577	8,681
		22,122	20,640
<i>Changes in operating assets and liabilities:</i>			
Due from banks		103,404	90,907
Financing receivables		(161,506)	(148,925)
Other assets		(7,030)	(4,412)
Due to banks and financial institutions		(86,453)	122,903
Depositors' accounts		107,445	58,353
Other liabilities		(4,991)	(15,171)
Net cash (used in)/ from operating activities		(27,009)	124,295
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investment securities		(113,101)	(111,720)
Proceeds on sale/ redemption of investment securities		97,285	86,812
Purchase of property and equipment		(1,770)	(3,900)
Dividend income received		767	532
Rental income received		702	1,733
Net cash used in investing activities		(16,117)	(26,543)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from issue of Perpetual Tier 1 Sukuk		-	90,279
Profit paid on Perpetual Tier 1 Sukuk		(2,607)	-
Cash dividends paid		(6,505)	(10,165)
Net cash (used in)/ from financing activities		(9,112)	80,114
NET (DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS			
Effect of foreign currency translation		945	180
Cash and cash equivalents at the beginning of the period		329,993	96,208
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	10	278,700	274,254

The accompanying notes from 1 to 16 form an integral part of this interim condensed consolidated financial information.

Kuwait International Bank K.S.C.P. and its Subsidiaries

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

1. INCORPORATION AND ACTIVITIES

Kuwait International Bank K.S.C.P. (the “Bank”) is a Kuwaiti public shareholding company incorporated in the State of Kuwait on 13 May 1973 as a specialised bank and is regulated by the Central Bank of Kuwait (the “CBK”). The Bank’s shares are listed on Boursa Kuwait.

In June 2007, the CBK licensed the Bank to operate in accordance with Islamic Sharia’a from 1 July 2007. From that date, all activities are conducted in accordance with Islamic Sharia’a, as approved by the Bank’s Fatwa and Sharia’a Supervisory Board.

The Bank is engaged principally in providing Islamic banking services, the purchase and sale of properties, leasing, and other trading activities. Trading activities are conducted on the basis of purchasing various commodities and selling them on murabaha at agreed profit margin which can be settled in cash or on installment credit basis.

The registered office of the Bank is at West Tower - Joint Banking Center, P.O. Box 22822, Safat 13089, Kuwait.

The Bank owns 73.6% of issued share capital of Al Dawli Takaful Insurance Company KSCC (“KIB Takaful”), Kuwait. KIB Takaful is engaged in providing Sharia’a compliant insurance services. In addition, the Bank owns 100% of issued share capital of KIB Tier 1 Sukuk Limited, incorporated as a special purpose company with limited liability in the Cayman Islands.

The interim condensed consolidated financial information of the Bank and its Subsidiaries (together the “Group”) for the period ended 30 September 2020 were authorized for issue by the Chairman on 10 November 2020 in accordance with a resolution of the Bank’s Board of Directors on 8 October 2020.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

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

The annual consolidated financial statements for the year ended 31 December 2019 were prepared in accordance with the regulations of the State of Kuwait for financial services institutions regulated by the CBK. These regulations require expected credit loss (“ECL”) to be measured at the higher of the ECL on credit facilities computed under IFRS 9 according to the CBK guidelines or the provisions as required by CBK instructions; the consequent impact on related disclosures; and the adoption of all other requirements of International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). The ECL credit facilities as at 30 September 2020 is lower than the provision for impairment of credit facilities required by CBK.

Further, during the period ended 30 September 2020, the CBK has extended their regulations to require that modification losses of financial assets arising from payment holidays provided to customers in response to the economic impact of Covid-19 are to be recognized in retained earnings instead of interim condensed statement of profit or loss (Note 16).

The interim condensed consolidated financial information does not contain all information and disclosures required for the annual consolidated financial statements prepared in accordance with IFRSs as adopted for use by the State of Kuwait, and should be read in conjunction with the Group’s annual consolidated financial statements as at 31 December 2019. Further, results for interim periods are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2020.

The consolidated financial statements are presented in Kuwaiti Dinars (“KD”) which is the functional currency of the Bank and KIB Takaful, rounded to the nearest thousand Kuwaiti Dinars, except when otherwise stated.

2.2 NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED BY 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 interim condensed consolidated financial information of the Group, but may impact future periods should the Group enter into any business combinations.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED BY THE GROUP (continued)

Amendments to IFRS 7, IFRS 9 and IAS 39: Interest Rate Benchmark Reform

The amendments to IFRS 9 and IAS 39 Financial Instruments: Recognition and Measurement provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest 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. The first phase of amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures focused on hedge accounting issues. The final amendments, issued in September 2019, amended specific hedge accounting requirements to provide relief from the potential effects of the uncertainty caused by IBOR reform. These amendments are effective from 1 January 2020 and had no impact on the interim condensed consolidated financial information.

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 interim condensed consolidated financial information 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 interim condensed consolidated financial information of the Group.

2.3 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.

3. FINANCE COSTS AND ESTIMATED DISTRIBUTION TO DEPOSITORS

The management of the Bank has estimated distribution to depositors and profit attributable to Bank’s shareholders based on the results for the nine-month period ended 30 September 2020. The actual distribution to depositors for deposits of tenures exceeding 6 months could be different from the amounts presented in the interim condensed consolidated statement of profit or loss. The actual profit to be distributed to these depositors will be determined by the Board of Directors of the Bank in accordance with the Bank’s articles of association, based on the annual audited results for the financial year ending 31 December 2020.

4. OTHER INCOME

Other income for the quarter ended 30 September 2020 includes KD 1,662 thousand resulted from confirmation of an insurance claim along with KD 1,935 thousand grant from the Government of Kuwait for the six months (Note 16) in line with Manpower and Government Restructuring Programme (MGRP).

Kuwait International Bank K.S.C.P. and its Subsidiaries

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

5. PROVISIONS AND IMPAIRMENT LOSSES

	<i>KD 000's</i>			
	<i>Three months ended</i>		<i>Nine months ended</i>	
	<i>30 September</i>	<i>30 September</i>	<i>30 September</i>	<i>30 September</i>
	<i>2020</i>	<i>2019</i>	<i>2020</i>	<i>2019</i>
Financing receivables	10,708	2,232	21,036	7,390
Expected credit losses for other financial assets	281	117	416	190
Reversal of impairment on non-cash credit facilities	(145)	(14)	(336)	(173)
Provision no longer required	(278)	(216)	(539)	(884)
Others	-	-	-	2,158
	10,566	2,119	20,577	8,681

6. BASIC AND DILUTED EARNINGS/ (LOSS) PER SHARE

Basic and diluted earnings per share are computed by dividing profit for the period attributable to the shareholders of the Bank adjusted for profit paid (if any) on Perpetual Tier 1 Sukuk by the weighted average number of shares outstanding during the period, less treasury shares, as follows:

	<i>KD 000's</i>			
	<i>Three months ended</i>		<i>Nine months ended</i>	
	<i>30 September</i>	<i>30 September</i>	<i>30 September</i>	<i>30 September</i>
	<i>2020</i>	<i>2019</i>	<i>2020</i>	<i>2019</i>
Profit for the period attributable to the shareholders of the Bank (KD 000's)	465	3,193	568	12,799
Less: profit paid on Perpetual Tier 1 Sukuk (KD 000's)	-	-	(2,607)	-
	465	3,193	(2,039)	12,799
Weighted average number of shares outstanding less treasury shares (shares'000)	1,019,586	1,019,586	1,019,586	1,019,586
Basic and diluted earnings/ (loss) per share	0.46 fils	3.13 fils	(2.00) fils	12.55 fils

Basic and diluted earnings per share for the comparative periods presented has been adjusted to reflect the effect of bonus shares for 2019 (Note 9).

7. DUE FROM BANKS

	<i>KD 000's</i>		
	<i>30 September</i>	<i>31 December</i>	<i>30 September</i>
	<i>2020</i>	<i>2019</i>	<i>2019</i>
		<i>(Audited)</i>	
Tawarruq transactions with CBK and government debts	96,230	150,178	163,986
Murabaha finance with banks (contractual maturity of 90 days or less)	243,239	233,674	137,060
Murabaha finance with banks (contractual maturity of more than 90 days)	6,082	55,523	6,072
	345,551	439,375	307,118
Less: Expected credit losses	(3)	(5)	(7)
	345,548	439,370	307,111

8. DUE TO BANKS AND FINANCIAL INSTITUTIONS

	<i>KD 000's</i>		
	<i>30 September</i>	<i>31 December</i>	<i>30 September</i>
	<i>2020</i>	<i>2019</i>	<i>2019</i>
		<i>(Audited)</i>	
Murabaha payable to banks	79,512	172,962	206,992
Murabaha payable to financial institutions	588,706	604,840	414,240
Current and call accounts	40,455	17,324	19,208
	708,673	795,126	640,440

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9. SHAREHOLDERS' MEETINGS

On 26 March 2020, the Annual General Assembly and Extraordinary General Assembly meetings of the Bank's shareholders approved the distribution of dividends for the financial year ended 31 December 2019 as follows:

- Cash dividends of 7 fils per share amounting to KD 6,797 thousand (31 December 2018: 11 fils per share amounting to KD 10,271 thousand) to the eligible shareholders as detailed in the schedule approved by Annual General Assembly, after excluding treasury shares; and
- Bonus shares of 5% (31 December 2018: 4%) to the eligible shareholders as detailed in the schedule approved by Annual General Assembly.

The bonus shares increased the number of issued and fully paid up shares by 53,940,986 shares (31 December 2018: 41,493,066 shares) and increase in share capital by KD 5,394 thousand (31 December 2018: KD 4,149 thousand).

The Bank completed the registration procedures for the issuance of bonus shares and has notified the regulatory authorities to adjust the authorized, issued and fully paid-up shares to 1,132,760,724 shares of 100 fils each.

All shares are paid up in cash.

10. CASH AND CASH EQUIVALENTS

	<i>KD 000's</i>		
	30 September 2020	<i>31 December 2019 (Audited)</i>	<i>30 September 2019</i>
Cash and balances with banks	35,461	96,319	137,194
Murabaha finance with banks (contractual maturity of 90 days or less)	243,239	233,674	137,060
	<u>278,700</u>	<u>329,993</u>	<u>274,254</u>

11. RELATED PARTY TRANSACTIONS

These are transactions with certain related parties (major shareholders, associate, directors and executive officers of the Group, close members of their families and companies in which they are principal owners or over which they are able to exert significant influence) who were customers of the Group in the ordinary course of business. Such transactions were made on substantially the same terms including profit rates and collateral as those prevailing at the same time for comparable transactions with unrelated parties and did not involve more than a normal amount of risk. Transactions with subsidiaries are eliminated in full and hence not disclosed.

The transactions and balances with related parties included in the interim condensed consolidated financial information are as follows:

	<i>KD 000's</i>				
			<i>Total</i>		
	<i>Major shareholders and other related parties</i>	<i>Directors and Executive officers</i>	30 September 2020	<i>31 December 2019 (Audited)</i>	<i>30 September 2019</i>
Balances					
Financing receivables	124,895	50,771	175,666	172,440	165,022
Credit cards	-	37	37	71	61
Deposits	14,486	4,555	19,041	17,464	16,166
Commitments and contingent liabilities	34,719	6,915	41,634	49,793	40,320
Collaterals against credit facilities	105,219	71,746	176,965	179,286	173,687
Transactions					
Financing income	4,073	2,041	6,114	8,610	5,826
Estimated distribution to depositors	219	12	231	280	192
Others	96	135	231	467	342

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11. RELATED PARTY TRANSACTIONS (continued)

	30 September 2020		31 December 2019 (Audited)		30 September 2019	
	No. of Directors and Executive officers	KD 000's	No. of Directors and Executive officers	KD 000's	No. of Directors and Executive officers	KD 000's
Directors						
Financing receivables	5	50,497	5	50,172	6	49,814
Credit cards	-	-	-	-	-	-
Deposits	9	3,508	9	2,150	9	2,232
Commitments and contingent liabilities	5	6,838	4	7,646	4	8,152
Collaterals against credit facilities	5	71,746	5	74,473	5	71,571
Executive officers						
Financing receivables	9	274	9	161	6	141
Credit cards	16	37	16	71	15	61
Deposits	21	1,047	21	1,114	19	982
Commitments and contingent liabilities	19	77	17	72	16	71

Key management personnel compensation

	KD 000's			
	Three months ended		Nine months ended	
	30 September 2020	30 September 2019	30 September 2020	30 September 2019
Short-term benefits	615	569	1,868	1,731
Post-employment benefits	45	40	134	117

12. COMMITMENTS AND CONTINGENT LIABILITIES

	KD 000's		
	30 September 2020	31 December 2019 (Audited)	30 September 2019
Acceptances	11,654	20,000	9,482
Letters of credit	4,860	7,367	9,264
Letters of guarantee	258,738	263,413	256,202
	275,252	290,780	274,948

The Group also has revocable cash commitments to extend credit amounting to KD 239,651 thousand (31 December 2019: KD 236,402 thousand, 30 September 2019: KD 201,674 thousand).

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13. SEGMENT INFORMATION

The Group's operating segments are determined based on the reports reviewed by the Chief Executive Officer 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:

Commercial and International Banking	:	Comprising of range of banking services and investment products to corporate customers, providing commodity and real estate Murabaha finance, Ijara and Wakala facilities.
Retail Banking	:	Comprising of range of banking services and investment products to individual customers, providing commodity Murabaha finance, Ijara and Wakala facilities.
Treasury, Fund Management and Institutional Banking	:	Comprising of liquidity management, correspondent banking, clearing, murabaha investments, exchange of deposits with banks and financial institutions.
Investment Management	:	Comprising of investment in associate and other investments, including investment properties.
Others	:	Comprising of those which is not pertaining to the above segments and includes those relating to all subsidiaries.

Management monitors the operating segments separately for the purpose of making decisions about resource allocation and performance assessment.

The Group measures the performance of operating segments through measure of segment operating income and results in management and reporting systems.

Segment assets principally comprise all assets and segment liabilities comprise all liabilities that are attributable to the segment.

The following table presents operating income, results for the period, total assets and total liabilities information regarding the Group's reportable segments.

	<i>KD 000's</i>					
	<i>Commercial and International Banking</i>	<i>Retail Banking</i>	<i>Treasury, Fund Management and Institutional Banking</i>	<i>Investment management</i>	<i>Others</i>	<i>Total</i>
30 September 2020						
Segment operating income/(loss)	51,152	5,527	(17,110)	4,604	5,178	49,351
Segment result	(690)	3,982	1,833	(654)	(3,794)	677
Segment assets	1,735,779	278,768	403,431	219,339	46,858	2,684,175
Segment liabilities	306,600	731,191	1,256,837	-	32,964	2,327,592
31 December 2019 (Audited)						
Segment assets	1,611,994	269,440	551,382	213,353	41,452	2,687,621
Segment liabilities	339,110	667,943	1,266,307	-	38,846	2,312,206
30 September 2019						
Segment operating income/(loss)	54,391	1,646	(10,681)	4,031	2,406	51,793
Segment result	24,236	(2,886)	(2,616)	(524)	(5,290)	12,920
Segment assets	1,492,032	266,115	464,194	168,923	40,068	2,431,332
Segment liabilities	309,684	738,577	976,673	-	34,638	2,059,572

The Group operates from the State of Kuwait only.

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14. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in orderly transaction between market participants at the measurement date.

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments that are carried at fair value:

Level 1: inputs are quoted prices (unadjusted) in active markets for identical assets and liabilities that the entity can access at the measurement date;

Level 2: inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability either directly or indirectly; and

Level 3: inputs are unobservable inputs for the asset or liability.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	<i>KD 000's</i>			
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
30 September 2020				
Investment securities				
<i>Financial assets at fair value through profit or loss:</i>				
Quoted securities	13,489	-	-	13,489
<i>Financial assets at fair value through other comprehensive income:</i>				
Quoted equity securities	2,468	-	-	2,468
Unquoted equity securities	-	-	24,882	24,882
Investment in sukuk	150,781	-	-	150,781
	166,738	-	24,882	191,620
31 December 2019 (Audited)				
Investment securities				
<i>Financial assets at fair value through profit or loss:</i>				
Quoted securities	13,148	-	-	13,148
<i>Financial assets at fair value through other comprehensive income:</i>				
Quoted equity securities	5,000	-	-	5,000
Unquoted equity securities	-	-	29,928	29,928
Investment in sukuk	131,810	-	-	131,810
	149,958	-	29,928	179,886
30 September 2019				
Investment securities				
<i>Financial assets at fair value through profit or loss:</i>				
Quoted securities	12,970	-	-	12,970
<i>Financial assets at fair value through other comprehensive income:</i>				
Unquoted equity securities	-	-	28,225	28,225
Investment in sukuk	92,456	-	-	92,456
	105,426	-	28,225	133,651

There has been no change in valuation techniques as compared to prior periods. During the period ended 30 September 2020, there were no transfers between the levels.

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30 September 2020

14. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The movement in Level 3 of financial instrument during the period are as follows:

	<i>KD 000's</i>				
	Balance as at 1 January	Change in fair value	Sale/ redemption	Exchange rate movements	Balance as at period/ year end
30 September 2020					
<i>Financial assets at fair value through other comprehensive income:</i>					
Unquoted equity securities	29,928	(5,089)	-	43	24,882
	<u>29,928</u>	<u>(5,089)</u>	<u>-</u>	<u>43</u>	<u>24,882</u>
31 December 2019 (Audited)					
<i>Financial assets at fair value through other comprehensive income:</i>					
Unquoted equity securities	27,504	2,433	-	(9)	29,928
	<u>27,504</u>	<u>2,433</u>	<u>-</u>	<u>(9)</u>	<u>29,928</u>
30 September 2019					
<i>Financial assets at fair value through other comprehensive income:</i>					
Unquoted equity securities	27,504	721	-	-	28,225
	<u>27,504</u>	<u>721</u>	<u>-</u>	<u>-</u>	<u>28,225</u>

15. PERPETUAL TIER 1 SUKUK

On 10 June 2019, the Bank (“Issuer”) through a Sharia’a compliant Sukuk arrangement issued RegS Tier 1 Sukuk amounting to USD 300 million. Tier 1 Sukuk is a perpetual security in respect of which there is no fixed redemption date and constitutes direct, unsecured, deeply subordinated obligations (senior only to share capital) of the Bank subject to the terms and conditions of the Mudaraba Agreement. The Tier I Sukuk is listed on the Irish Stock Exchange (Euronext Dublin) and is callable by the Bank after five-year period ending 10 June 2024 (the “First Call Date”) or any profit payment date thereafter subject to certain redemption conditions including prior regulatory approvals.

The net proceeds from Tier 1 Sukuk are invested by way of Mudaraba with the Bank (as “Mudareb”) on an unrestricted basis, by the Bank in its general business activities carried out through the general Mudaraba pool. Tier I Sukuk bears a profit rate of 5.625% per annum to be paid semi-annually in arrears until the First Call Date subject to terms of the issue. After that, the expected profit rate will be reset based on then prevailing 5 year US Treasury plus a margin of 3.6% per annum.

At the issuer’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 will not constitute a default event.

16. IMPACT OF COVID-19 PANDEMIC

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

Covid-19 support measures

In response to the crisis the CBK implemented a number of measures targeted at reinforcing the banking sectors ability to play a vital role in the economy and remain liquid to support the business and economy. These measures include, 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.

16. IMPACT OF COVID-19 PANDEMIC (continued)

Covid-19 support measures (continued)

Some of the important regulatory measures taken by CBK are given below:

- Decreased the Liquidity Coverage Ratio (“LCR”) from 100% to 80% until 31 December 2020
- Decreased the Net Stable Financing Ratio (“NSFR”) from 100% to 80% until 31 December 2020
- Decreased the regulatory Liquidity Ratio from 18% to 15% until 31 December 2020
- Increased the limit for maximum negative cumulative gap for liquidity until 31 December 2020
- Released Capital conservation buffer of 2.5% of risk-weighted assets in the form of CET1 until 31 December 2020
- 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 (Finance-to-Deposits Ratio) from 90% to 100% of deposits
- Increased finance-to-value limits for finance granted to individuals for the purpose of purchasing and/or developing real estate properties
- Provision of finance by banks at concessional profit rates to SMEs and other companies impacted by the Covid-19 (Emergency Line of Credit programme)
- Postpone amounts due from corporate customers impacted by Covid-19 for a maximum period of six months on case by case basis.

Deferral of instalments for Consumer and Housing finance, credit cards and facilities to SMEs

Kuwaiti banks announced postponement of payment of instalments of consumer and housing finance, credit cards and financing facilities to SMEs for a period of six months effective from April 2020 without charging additional profit for such deferral. The instalment deferrals are considered as short-term liquidity support to address borrower’s potential cash-flow issues. Customers hold the option not to participate in this scheme of deferral.

The Bank implemented the deferral by postponing the instalments falling due within the six months period from 1 April 2020 to 30 September 2020 with a corresponding extension of the facility tenure. The instalments deferral results in a loss of KD 7,203 thousand to the Bank arising from the modification of contractual cashflows. The loss is charged to retained earnings in accordance with the Bank’s accounting policy as stated in Note 2 and as per CBK instructions.

Expected Credit Loss (“ECL”) estimates

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

Significant increase in credit risk

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

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

The above assessment has resulted a suitable classification of certain exposures and corresponding increase in ECL.

16. IMPACT OF COVID-19 PANDEMIC (continued)

Expected Credit Loss (“ECL”) estimates (continued)

Macro-economic factors

The Bank considered the effects of volatility witnessed in the range of macroeconomic factors and in the scenarios used for determination of ECL. In particular, given the continuing uncertainties and impact stemming from Covid-19, and considering that the situation is fast-evolving, the Bank revised certain assumptions reflected through constructing a plausible forward-looking view of the macroeconomic factors. The Bank applies appropriate probability weightages on two scenarios (‘Baseline’, ‘Benign’) which is combined with significantly conservative revised forecasts of macro-economic factors across all two scenarios when compared to year ended 31 December 2019. The Bank also applied management overlay in assessing the ECL for the retail segment given that the majority of the portfolio is to Kuwaiti national employees in the government and semi-government sector and very minimal exposure to employees in the private sector. The potential loss of earnings/income source for majority of the retail segment customers is low due to impact Covid-19. These adjustments and management overlays are reflected in the amount of ECL requirements for the period ended 30 September 2020.

Other impacts

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

Government grants

The Government of Kuwait has provided financial support to business owners in response to the pandemic. During the current period, the Bank has received government grant (Note 4) related to Kuwaiti beneficiaries registered under Article No. 3 of the Kuwaiti Labor Law. The government grant is part of the assistance made towards the national workforce in the private sector for a period of up to six months. The financial support has been accounted for in accordance with IAS 20 ‘Accounting for government grants and disclosure of government assistance’ and recognised in the interim condensed consolidated statement of profit or loss as other income on a systematic basis over the periods in which the bank has recognised the related staff costs.