بيت التمويل الكويتي
Kuwait Finance House

Annual Report

Kuwait Finance House (K.S.C.P)
and Subsidiaries

2017

40
YEARS
OF LEADERSHIP
1977 - 2017

بسم الله الرحمن الرحيم

In the name of Allah the Most Gracious, the Most Merciful.

Ye who Believe! Fear Allah and give up what remains of your demand for usury, if ye are indeed believers (278). If ye do it not, take notice of war from Allah and his Apostle, but if ye turn back, ye shall have your capital sums deal not unjustly and ye shall not be dealt unjustly (279).

Al Baqara (278 - 279) Al-Quran

His Highness
Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah
The Amir of the State of Kuwait

His Highness
Sheikh Nawaf Al-Ahmad Al-Jaber Al-Sabah
The Crown Prince

His Highness
Sheikh Jaber Al-Mubarak Al-Hamad Al-Sabah
The Prime Minister

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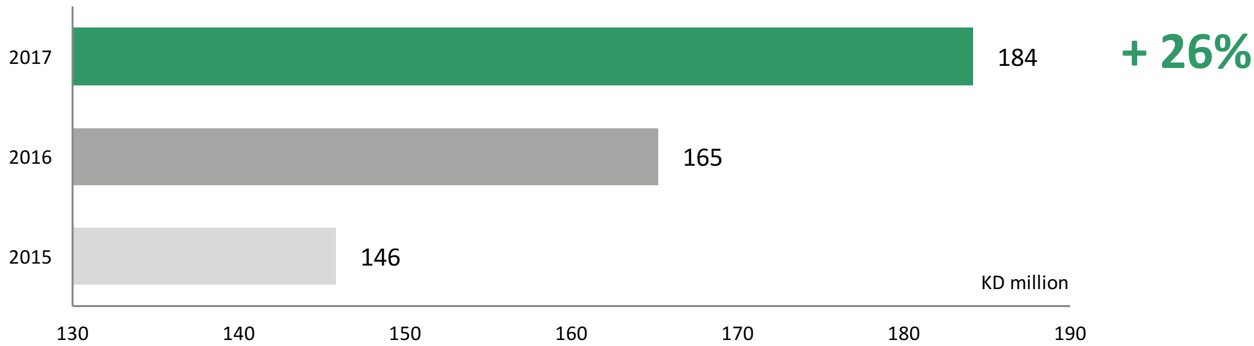
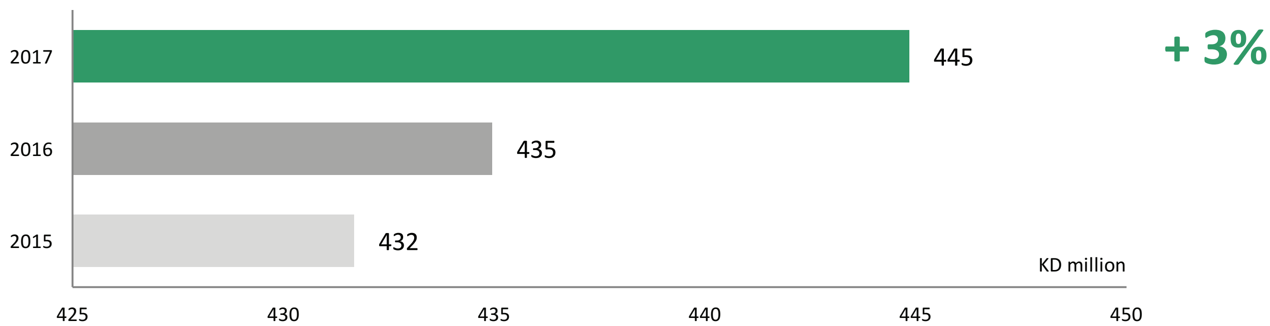
Financial Indicators

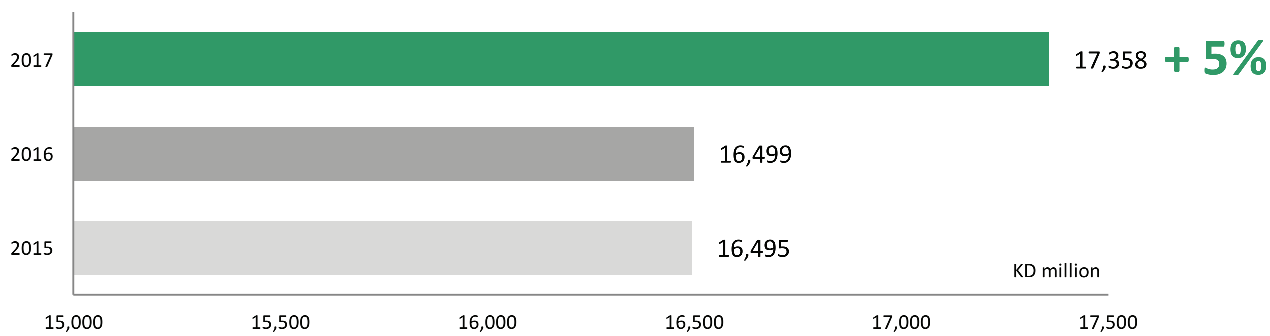
Net Profit attributable to the shareholders of the bank 2015-2017



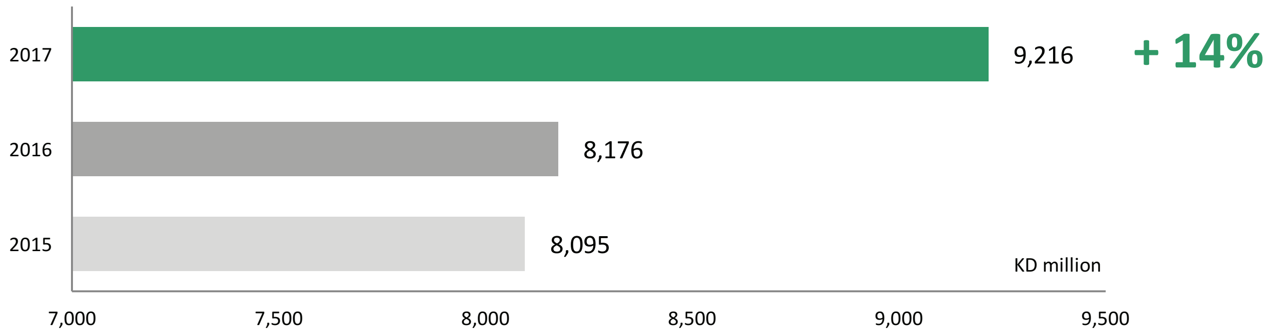
Net finance income 2015-2017



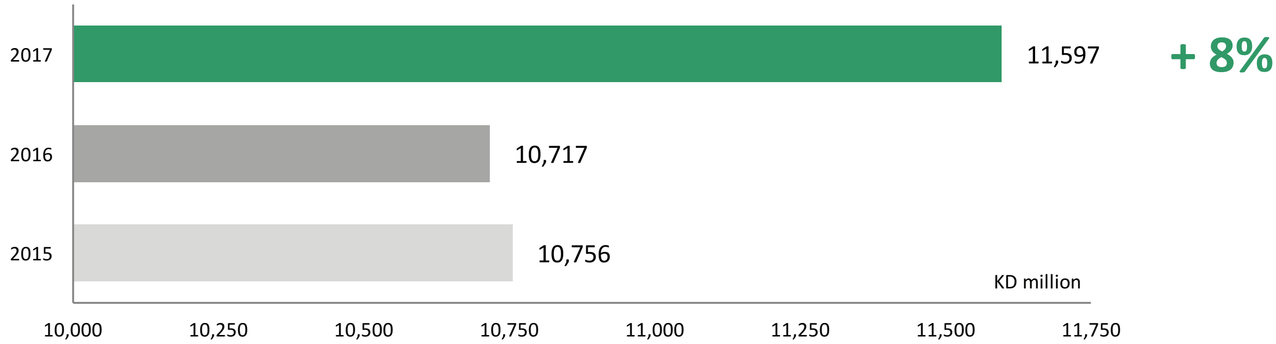
Total Assets 2015-2017



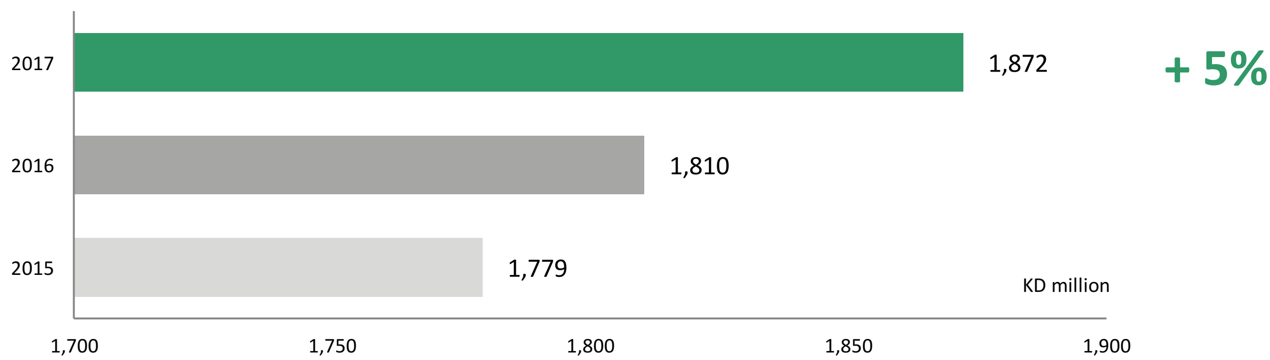
Financing Recievables 2015-2017



Depositors' Accounts 2015-2017



Equity attributable to the shareholders of the bank 2015-2017

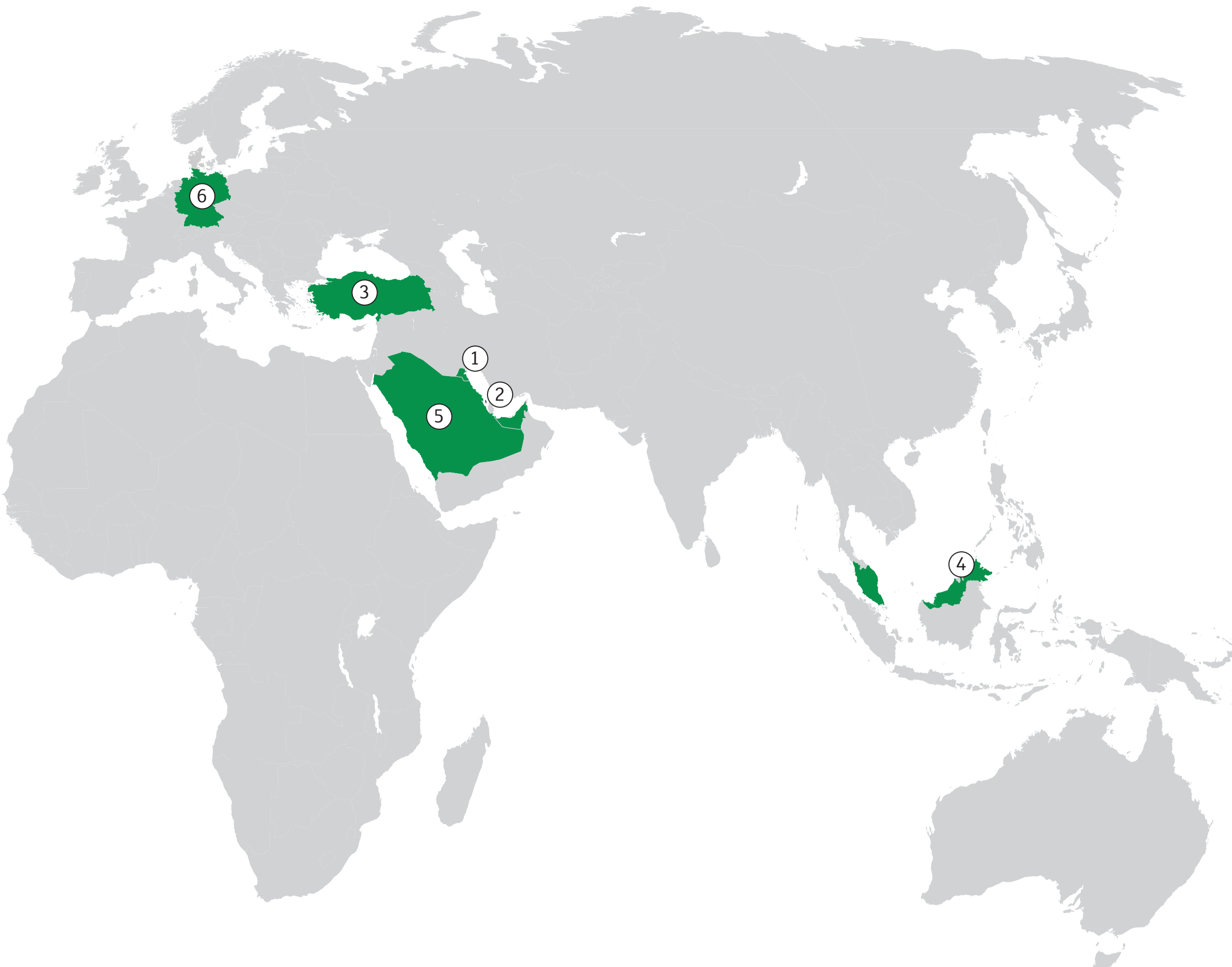


KFH's Group Overview

KFH's Group Overview

Global Integrated Operations

Leading the Islamic finance industry, KFH Group offers a wide range of Islamic products and services across several regions, with 484 branches, 1,479 ATMs and more than 15,000 employees.



• Kuwait Finance House (KFH) was the first Islamic bank established in Kuwait in 1977. Today, KFH is one of the leading Islamic banking institutions in the world, and one of the biggest financiers in both the local and regional markets.

• KFH's largest shareholders include: Kuwait Investment Authority (Direct), Kuwait Awqaf Public Foundation (Direct), Public Authority for Minors' Affairs (Direct), The Public Institution for Social Securities (Indirect).

• Kuwait Finance House is a publically listed company on Boursa Kuwait (Ticker "KFIN").

1- Kuwait Finance House K.S.C.P. - Kuwait

2- Kuwait Finance House B.S.C. - Bahrain

3- Kuwait Turkish Participation Bank - Turkey

4- Kuwait Finance House - Malaysia (Berhad)

5- Saudi Kuwaiti Finance House S.S.C.

6- KT Bank AG - Germany

Vision

To lead the international development of Islamic financial services and become the most trusted and sustainably most profitable Shari'a-compliant bank in the world.

Mission

To deliver superior innovation and customer service excellence while protecting and enhancing the interests of all our stakeholders.

Values

Leadership and Innovation
Partnership and Accountability
Compliance with Islamic Shari'a

Chairman's Message

Praise be to Allah Almighty, and Peace and Blessings be upon our Prophet Muhammad (PBUH), his Family and Companions.

Esteemed Shareholders,

Assalamu Alaikum Warahmatu Allah Wabarakatuh

On behalf of myself, my fellow colleagues, members of the Board of Directors of Kuwait Finance House ("KFH"), I would like to present to you KFH Group Annual Report for 2017. We have managed this year to achieve positive results despite various difficult challenges, continued weak economic growth in several countries and geopolitical tensions.

However, it can be said that 2017 was a unique year in KFH's journey of success as it was crowned by celebrating its 40th Anniversary as the first and pioneer Islamic bank in Kuwait. KFH has completed four decades of significant achievements that contributed effectively to the national development and growth of Kuwait's economy. Started as an ordinary small bank in late 1970s, KFH has succeeded in becoming one of the largest, most prominent, credible and secured Islamic banks in Kuwait where it also attained high credit ratings amongst the local and international peers with distinguished geographical diversity worldwide in Bahrain, Saudi Arabia, Turkey, Malaysia and Germany.

With steadiness and absolute confidence, KFH has managed during the past 40 years to enhance the value of its depositors and shareholders' equity, increase returns on their investments and maintain steady profitability despite crises and major challenges encountered at both local and international levels. Starting from a limited capital not exceeding two million Kuwaiti Dinars upon incorporation, its total shareholders equity grew to reach approximately two billion Kuwaiti Dinars as at the end of 2017.

This long march has reflected several competitive advantages rendering KFH as a model, being a leading development bank with a prestigious Islamic trademark. KFH provides a large variable package of banking and investment products to motivate saving, meet finance and investment needs, attract more capital and acquire depositors and shareholders trust in light of its high quality assets, growth in profits and prudent risk management policy. All such factors have ranked KFH as one of the pioneer leading Islamic banks both at local and international levels.

We have started 2017 with a much stronger base where we reaped the harvest of our efforts during the past three years. These results are attributed, by the grace of Allah, to the loyalty of our customers, the outstanding efforts of our employees, our strict compliance with Islamic Shari'a principles and rules, the efficiency of our control systems and our good resources and risks management, where cost optimization outcomes have become obvious. We have executed prudent exits from certain investments to determine the ideal volume of investments after consolidating "KFH Investment Portfolio" through KFH Capital, overcoming certain duplicated activities, focusing on core banking business and expanding the strategic supervision circle so as to enable KFH to seize income generating investment opportunities and become the most sustainable in terms of profitability and the most trusted Islamic bank worldwide.

On a strategic level, KFH managed to set its 3-year strategy ending in 2020. The strategy is focused on three main pillars including the development of current customers' base, innovation based on the new digital financial technology (FINTECH) and achievement of operational excellence.

We have set our ambitious strategy trend for the following years to counter challenges in the organizational, economic and operational environment and respond to regulatory requirements. Our aim is to make customers the main focus, exceed their expectations, maintain a constant leadership, and achieve distinct performance and sustainable growth.

In regards to banking services and private banking, we have maintained our leading position among Kuwaiti banks, especially in the field of expanding the new innovative Shari'a compliant solutions circle, increasing the focus on services through digital media that enhance customers' self-service, whereas we provided XTM machines in some of our branch locations.

Corporate banking continued its growth benefiting from the strong and well established links and coordination with the Group's subsidiaries and associates, which had the greatest effect on providing distinct financial solutions both at local and global levels. At the local level, KFH has arranged several major transactions to finance infrastructure projects including financing a company entering into contract with the Ministry of Electricity and Water with total value amounting 120 million Kuwaiti Dinars. Further, it has also financed a transaction for purchasing three aircrafts with value amounting 124 million Kuwaiti Dinars in favor of ALAFCO Aviation Lease and Finance Company. On the global level, KFH played the role of the main organizer and subscription manager of a transaction in US dollar syndication finance amounting 180 million Kuwaiti Dinars in favor of a wholly owned company of Omani Investment Fund. Further, KFH continued its focus on Small and Medium Enterprises.

At another level, Group Treasury's contribution to the financial results achieved by KFH this year was strong and outstanding. The main focus was placed on the development and improvement of treasury and Sukuk investment activities. This fact is confirmed through the rating given by International Islamic Liquidity Management Corporation (IILM) where KFH has taken the leading position amongst main traders in the premier Sukuk issuances, thus representing a share of 30% of its value amounting 10 billion US dollars whereas KFH's trade volume reached more than 15 billion US dollars in coordination with KFH Capital, which has excelled in the issuance and management of Sukuk through several major transactions including that of the Omani Mazoon Electricity Company in value of 500 million US dollars for a term of 10 years, and 500 million US dollars for APICORP Sukuk for a term of 5 years. The Group has also arranged for the first time sovereign Sukuk for Hong Kong amounting one billion US dollars for a term of 10 years in addition to other Sukuk transactions worldwide.

To enhance our commitment to a more open and cooperative environment and to cope with the highest possible code of ethics, we have established a new organizational structure for KFH Group Shari'a Department in 2017. The new structure is marked by consistency and absorbing the prudent governance standards issued by the Central Bank of Kuwait. Also, it aims to develop certain work mechanisms in the Shari'a sector, simplify procedures, enhance the Shari'a control efficiency and promote the Sharia performance quality level through intense training programs to acquire accredited international certificates in the field of Sharia audit and control.

These factors have helped achieve a noticeable and clear improvement in most of the main sources of income at the Group level. Efforts exerted during the last three years with an aim of enhancing the profitability of the Group, optimizing its costs and achieving integration among its parties have led to several achievements as evidenced in 2017 financial results whereas we managed, thanks to Allah, to achieve a net profit for the shareholders reached 184.2 million Kuwaiti Dinars at a growth rate of 11.5% compared to the preceding year. Further, the earnings per share reached 32.41 fils at a growth rate of 11.4% whereas the total assets amounted 17.4 billion Kuwaiti Dinars at a growth rate of 5.2%. Further, total operating expenses share reached 42.76% in total operating income, thus continuing its decline for the third consecutive year. KFH customers' deposits grew by 8.2% to reach 11.6 billion Kuwaiti Dinars. Such figures reflect a strong financial position amidst tough operational conditions.

We continued to focus primarily on serving our customers by taking care of our staff where 2017 was a busy year from a Human Resources perspective. For the second year in a row we have had record participation in our Employee Survey and this year our Group Engagement Score improved by 2% to remain above 70%, which compares favorably to our peers in the GCC and high performing organizations around the world.

We continued to attract national talent through developing their academic and professional knowledge in the field of Islamic Banking and Finance. Our Human Resources Strategy is closely linked to our Nationalization agenda where we maintain a healthy Kuwaitization ratio of 66%. This year, more than 90% of all recruitment in KFH Kuwait has been Kuwaiti Nationals, and we have relaunched our "Forssah Program" for talented Kuwaiti graduates to fast track their development into becoming the future banking leaders across KFH Group.

To cope with the latest technological developments in the banking industry, KFH has worked during the year on developing several IT systems according to a new strategy to accommodate the latest digital products. Many of our business channels and products have achieved leading positions in the market. Further, we continue to introduce highly integrated and diversified digital products to enable our customers to avail modern developed banking options.

Whereas KFH seeks to enhance and strengthen its communication with the components of the Kuwaiti society and react to the rapid developments witnessed by social media, KFH was keen on drafting and executing several social and humanitarian initiatives. To stress this mandatory role, we have launched 'KFH Sustainability Report' for the 4th consecutive year as per the sustainability instructions on the social responsibility. Further, KFH continued its efforts to spread financial and banking culture through its economic and real-estate publications, expanding the online publication base through our website and social media and cooperating in this field with Thomson Reuters Agency, which is reflected in the increased number of followers on social media accounts of the Group.

KFH has adopted several necessary, ambitious initiatives and programs in the field of social development to support the Kuwaiti "Zakat House" and educational, rehabilitation, cultural and humanitarian institutions. KFH has donated about 8.2 million Kuwaiti Dinars to support Zakat House's charity activities and projects in addition to our vital role and participation in providing support and care to environment and supporting all activities and events organized by universities and educational institutions.

Prizes and awards received by KFH during the year from various prestigious global institutions reflect KFH's success in providing highly distinguished services at both local and international levels, expressing its strong credit rating and highlighting its ability to maintain profitability based on its leading position in the market, capital adequacy, distinguished financial standards and available liquidity.

Owing to its continued efforts during the year, KFH has deserved the appreciation of global credit rating agencies. Fitch Rating Agency has increased KFH viability and growth rating from bb to bb+ and confirmed its long-term credit rating at A+ and the short-term credit rating at F1. Meanwhile, Moody's affirmed KFH long-term credit rating at A1 and short-term rating at P-1 at the time where it amended its future view of KFH from Negative to Stable. Further, Standard and Poor's (S&P) raised KFH rating with no support from bb+ to bbb-. These indicators reflect an improvement in capital management, starting from high levels maintained by KFH through internal resources, integration of risk management functions at the Group level, the strong franchise of the Bank, its highly experienced management team in the local and regional banking business with effective governance standards, improved financing quality, and put potential improvement of profitability in light of lesser concentration elements compared to other banks, Fitch Rating

Agency has a positive outlook on the Group's strategy management despite the prevailing competitive environment.

As we are committed to realize significant returns for shareholders in the long run, the Board of Directors has made its recommendations to the general assembly to distribute cash dividends of 17%, bonus shares of 10% and returns on investment deposits and saving account as shown in the below table:

Table: Depositors Profit

Account Type	2017	2016
"Khumasiya" Investment Deposit	2.625%	2.400%
"Mustamera" Investment Deposit	2.250%	2.200%
"Sidra" Investment Deposit	1.950%	1.500%
Dima Investment Deposit (12 months)	2.000%	1.900%
Dima Investment Deposit (6 months)	1.875%	1.425%
Long Term Investment Plans	1.930%	1.600%
Investment Saving Accounts "Saving"	1.000%	0.850%

We would like to avail this opportunity to extend our sincere thanks and appreciation to all our shareholders and customers for their continuous support. We are confident that we will, by the grace of Allah, continue to achieve rewarding returns for the shareholders and the depositors. I would also like to thank our employees at Group level and the members of Fatwa and Shari'a Supervisory Board for their continuous efforts and constructive work.

In conclusion, I would like to extend our sincere thanks and appreciation to His Highness the Amir of Kuwait Sheikh Sabah Al-Ahmed Al-Jaber Al-Sabah, May Allah safeguard Him, His Highness the Crown Prince Sheikh Nawaf Al-Ahmed Al-Jaber Al-Sabah, May Allah safeguard Him, and His Highness the Prime Minister Sheikh Jaber Al-Mubarak Al-Sabah, May Allah safeguard Him. Our thanks and appreciation are also extended to His Excellency Dr. Mohammed Al-Hashel, the Central Bank of Kuwait's Governor and all the regulatory authorities for their ongoing support to the banking sector in the State of Kuwait.

May Allah Grant us Success

Hamad Abdul Mohsen Al-Marzouq
Chairman

Board of Directors

Mr. Hamad Abdul Mohsen Al Marzouq

Chairman since 2014

Mr. Al Marzouq received his Master's Degree in International Finance and Business Management from Claremont Graduate University in the U.S. in 1987. He received his Bachelor's Degree in Industrial Systems Engineering from the University of Southern California in the U.S. in 1985.

Mr. Al Marzouq serves as a Board Member of Kuwait Banking Association (KBA) since 2002 and was appointed as Chairman of the Association from 2010 until 2016. Mr. Al Marzouq served as a Board Member of the Kuwait Institute of Banking Studies (KIBS) from 2003 to 2014 and the Public Authority for Applied Education and Training (PAAET) from 2007 until 2016. Mr. Al Marzouq served as a Member of the Board of Trustees of the Arab Academy for Financial and Banking Sciences from 2004 until 2009 and was a Board Member of the Union of Arab Banks from 2003 until 2010.

Mr. Al Marzouq has a diverse professional experience in Banking and Finance both in Kuwait and abroad spanning more than thirty years as he has held many prominent positions in various banking, financial and regulatory institutions. Mr. Al Marzouq was Chairman of Ahli United Bank - Kuwait from 2002 until 2014, and was Vice Chairman of Ahli United Bank - U.K. from 1998 until 2014 and was Vice Chairman of Ahli United Bank - Egypt from 2006 until 2014. Mr. Al Marzouq served as Vice Chairman of Ahli United Bank - Bahrain from 2000 until 2014 and served as Vice Chairman of Ahli Bank - Oman from 2007 until 2014. Mr. Al Marzouq served as Vice Chairman of the Commercial Bank of Iraq from 2006 until 2014.

Mr. Al Marzouq served as a Board Member, Vice Chairman, and Chairman of Kuwait & Middle East Financial Investment Company in Kuwait from 2002 until 2010. He held the position of Vice Chairman of Middle East Financial Investment Company in the Kingdom of Saudi Arabia from 2009 until 2013 and was Vice Chairman of Ahli Bank in Qatar from 2004 until 2013.

Mr. Al Marzouq previously held several executive positions at the Central Bank of Kuwait including the position of Deputy Manager of the Technical Affairs Office in 1990. In addition, Mr. Al Marzouq served as the Deputy Manager of Financial Control Department from 1992 until 1996 and then served as Manager of Financial Control Department from 1996 until 1998. Mr. Al Marzouq commenced his professional career as an Investment Officer in the U.S. Equity Portfolios and Derivatives at the Investment Department at Kuwait Investment Company from 1987 until 1990.

Mr. Abdul Aziz Yacoub Alnafisi

Vice Chairman since 2014

Chairman of the Nominations and Remunerations Committee and Member of the Executive Committee

Mr. Alnafisi received his Bachelor's Degree in Economics from Whittier College in the U.S. in 1977.

Mr. Alnafisi holds the position of General Manager of Abdul Aziz Alnafisi General Trading Company.

Mr. Alnafisi has a wealth of experience in Kuwait and abroad as he has held many prominent leadership positions in companies within Banking, Financial, Real Estate and Telecommunication Sectors.

Mr. Alnafisi was a Board Member in Mobile Telecommunications Company "Zain Group" from 2005 until 2017 where he held the position of Vice Chairman until 2013. In addition, he was a Board Member in Mobile Communication Company - Saudi Arabia "Zain KSA" from 2013. Mr. Alnafisi held many positions in the Board of Directors of Zain Group MENA entities including Zain Iraq, Zain Jordan and Zain Sudan as well as many positions in the Board of Directors of Celtel - Zain Africa.

Mr. Alnafisi was the Chairman of Mada Communication Company from 2001 until 2011 and assumed the position of the Chairman of Al Madar Finance and Investment Company from 1998 until 2004. Mr. Alnafisi was a Board Member of Wethaq Takaful Insurance Company from 2000 until 2004 and was a Board Member of Kuwait Investment Projects Company from 1993 until 1996. In addition, Mr. Alnafisi held the position of the Chairman of KFIC Brokerage Company from 1989 until 1992.

Mr. Alnafisi previously held several executive positions including the position of CEO of Alnafisi National Real Estate Group from 1996 until 2010. In addition, Mr. Alnafisi held the position of Deputy General Manager of Yacoub Alnafisi General Trading and Contracting Establishment from 1984 until 1990, and Managing Director of KFIC Brokerage Company from 1989 until 1990. Mr. Alnafisi commenced his professional career as the Head of Banking Facilities Division at Burgan Bank from 1978 to 1981.

Mr. Fahad Ali AlGhanim

Board Member since 2014

Chairman of the Investment Committee, Member of the Executive Committee, and Member of the Audit and Compliance Committee.

Mr. AlGhanim received his Bachelor's Degree in Civil Engineering from Kuwait University in 2002.

Mr. Al Ghanim is the Chairman of Aayan Leasing and Investment Company since 2011. In addition, he is the Vice Chairman of AlAhlia Heavy Vehicles Selling and Import Company since 2011 and Board Member of Kuwait Building Materials Manufacturing Company since 2004. Mr. AlGhanim currently holds the position of CEO at Ali Mohammed Thunayan AlGhanim and Sons Automotive Group of Companies since 2005 and is a Board Member and Treasurer at Kuwait Sports Club since 2007.

Mr. AlGhanim has held many prominent leadership positions including the position of the Chairman and CEO of AlAhlia Heavy Vehicles Selling and Import Company from 2005 until 2011 and was the Chairman of the Restructuring Committee at Aayan Leasing and Investment Company from 2010 until 2011.

Mr. Al Ghanim assumed Board Member positions in numerous local companies including the International Company for Electronic Payment (UPS) from 2005 until 2010, Al-Oula Slaughter House Company from 2003 until 2005, and was the CEO of Ali AlGhanim and Sons Group of Companies – Contracting Sector from 2002 until 2005.

Mr. Muad Saud Al Osaimi

Board Member since 2014

Member of the Executive Committee, Member of the Risk Committee, and Member of the Investment Committee.

Mr. Al Osaimi received his Bachelor's of Science Degree in Finance from George Mason University in the U.S. in 2001.

Mr. Al Osaimi was appointed as the Chairman of KFH Malaysia since February 2017. He also served as a Board Member of numerous companies including Kuwait Gate Holding Company from 2004 until 2014, Kuwait Financial Center Company from 2008 until 2011 and Al Raya International Holding Company from 2005 until 2009.

Mr. Al Osaimi is the Deputy General Manager of Global Retail Company since 2003. He previously worked at the Investment Department of Aayan Leasing and Investment Company in 2002 and completed an 18 months specialized training program for graduates at Kuwait Investment Authority (KIA) in 2001.

Mr. Khaled Salem Al Nisf

Board Member since 2014

Chairman of the Risk Committee, Member of the Executive Committee, and Member of the Investment Committee

Mr. Al Nisf received his Bachelor's Degree in Finance from the College of Commerce, Economics and Political Sciences at Kuwait University in 1995. He also pursued specialized courses in Financial Statement Analysis from the Institute of International Research.

Mr. Al Nisf is the Vice Chairman of the Kuwaiti Digital Computer Company since 2016. In addition, Mr. Al Nisf holds the position of Board Member at Al-Shamiya Holding Company since 2016 and is a Board Member at Al Tadamon Al Kuwaitiya Company since 2016.

Mr. Al Nisf held the position of Chairman of the Executive Board specialized in setting strategies and implementation at Al Nisf Group of Companies.

Mr. Al Nisf has held the position of CEO at Mohamed Bin Yusuf Al Nisf & Partners Company, Al Tadamon Al Kuwaitiya Company, and Trading and Industrial Equipment Company since 2008.

Mr. Al Nisf previously held several executive positions including the position of Investment and Finance Manager at Al Nisf Companies from 1997 until 2008, and was the Administration Manager of the Company from 1995 until 2007. In addition, Mr. Al Nisf previously held the position of Board Member at the Kuwaiti Digital Computer Company from 2001 until 2016.

Mr. Noorur Rahman Abid

Board Member since 2014

Chairman of the Audit and Compliance Committee and Member of the Nominations and Remunerations Committee.

Mr. Abid has been a Fellow Chartered Accountant from Institute of Chartered Accountants in England and Wales (ICAEW) since 1976.

He was appointed as Assurance Leader for Ernst & Young Middle East and North Africa in 1999, and has nearly 40 years of extensive experience within the profession.

In 2012, Mr. Abid received the World Islamic Banking Conference Industry Leadership Award in recognition for his contribution to the Islamic Banking industry.

Mr. Abid previously served as Chairman of the Accounting Standards Committee and Vice Chairman of Accounting and Auditing Standards Board of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). He is currently a member of the Board of Trustees of the AAOIFI.

Mr. Abid serves as a Board Member and member of the Audit Committee at Meezan Bank, one of the largest Islamic Banks in Pakistan. In addition, Mr. Abid is a Board Member at Arcapita Company in the Kingdom of Bahrain and Chairman of its Audit Committee. Mr. Abid is a Board Member at Dr. Soliman Fakeeh Hospital in Jeddah in the Kingdom of Saudi Arabia, Chairman of its Audit Committee, and a member of its Nominations and Remunerations Committee.

Mr. Ra’ed Khaled Al Kharafi

Board Member representing Kuwait Awqaf Public Foundation since 2015

Chairman of Governance Committee and Member of Risk Committee

Mr. Al Kharafi received his Bachelor’s Degree in Commerce (Management) from Cairo in 2007, and Diploma in Management from College of Business Studies at the Public Authority for Applied Education and Training in Kuwait in 1993.

Mr. Al Kharafi is a member of the Fact Finding Committee which reports to the Ministry of Justice in 2015, and a Board Member at Real Estate Asset Management Company (REAM) representing Kuwait Awqaf Public Foundation from 2015 until 2016, and Acting Board Member at Zakat House representing Kuwait Awqaf Public Foundation from 2015 until 2016.

He holds the position of Deputy Secretary General for Developing Resources and Investment at Kuwait Awqaf Public Foundation with a job grade of Assistant Undersecretary since 2015. Mr. Al Kharafi commenced his professional career at the Kuwait Fund for Arab Economic Development in 1993, and was promoted to Head of Public Relations Division in 1996 and to Deputy Manager of Administrative Affairs from 2000 until 2015.

He is a Member of the Supervising Committee of the Awqaf Properties Investment Fund at the Islamic Development Bank, Jeddah, Kingdom of Saudi Arabia, representing Kuwait Awqaf Public Foundation since 2016.

Mr. Al Kharafi previously held numerous executive positions including the Chairman of the Board of Directors of one of the largest Retail Centers in Kuwait in 2005. Prior to that, he held the position of Treasurer in 2003, and then appointed as Vice Chairman of the Board of Directors in 2004 at the same Retail Center.

Mr. Barrak Ali Alsheatan

Board Member representing the Public Authority for Minor’s Affairs (PAMA) since 2015

Member of the Nominations and Remunerations Committee and Member of the Governance Committee.

Mr. Alsheatan received his Bachelor’s Degree in Accounting from Kuwait University in 1990.

Mr. Alsheatan is the General Manager of the Public Authority for Minor’s Affairs and Board Member of Zakat House since 2015 and a Member of the Martyr’s Office Board of Trustees.

Mr. Alsheatan was Vice Chairman of Real Estate Asset Management Company (REAM) from 2015 until 2016 and Chairman of National Offset Company from 2012 until 2015.

Mr. Alsheatan held many prominent leadership positions, such as Board Member at the Central Bank of Kuwait representing the Ministry of Finance, Board Member of Kuwait Investment Company, and Board Member of Kuwait Direct Investment Promotion Authority.

Mr. Alsheatan held numerous executive positions including Assistant Undersecretary of General Accounting Affairs at the Ministry of Finance from 2007 until 2015, System & Follow up Controller in 2000, Steering & Organization Department Manager in 2006 at the Ministry of Finance, and Accounting Steering Controller from 1996 until 2000. In addition, he headed the Accounting Steering Division from 1993 until 1996. Mr. Alsheatan commenced his professional career as a researcher at the Accounting Steering Division in 1990 at the Ministry of Finance.

Mr. Motlaq Mubarak Al-Sanei

Board Member representing Kuwait Investment Authority since 2017

Member of the Executive Committee, Member of the Risk Committee, and Member of the Nominations and Remunerations Committee

Mr. Al-Sanei received his Bachelor's Degree in Economics from Kuwait University in 1983.

He is currently the Director General of Kuwait Authority for Partnership Projects.

Mr. Al-Sanei has a wealth of professional experience in the Economic and Investment field where he has held numerous prominent positions. He served as the Chairman and Board Member for numerous leading companies in Kuwait including the role of Chairman of Kuwait Small Projects Development Company from 2005 until 2011. Mr. Al-Sanei has assumed overseas roles including the role of Chairman of the Tunisian Kuwaiti Bank from 2001 until 2011.

Mr. Al-Sanei made efficient and effective contributions to the Board Committees he participated in. He Headed the Privatization Committee of Kuwait Airways Corporation in 2010. In addition, Mr. Al-Sanei has a highly distinguished professional experience in the field of Islamic Banking and Capital Markets as he headed the Founding Committee of Warba Bank. In addition, he was a member of the Privatization Committee of Kuwait Stock Exchange in 2011 and the Founding Committee of Media City Company in 2008.

Mr. Al-Sanei was a Board Member in several leading companies in Kuwait including Tri International Consulting Group (TICG) from 2014 until 2016 and Bank of Bahrain and Kuwait from 2011 until 2017. He served as a Board Member in several companies abroad including Arab Investment Company in the Kingdom of Saudi Arabia from 2008 until 2015, Arab Authority for Investment and Agricultural Development in the Republic of Sudan from 2001 until 2008, and the Kuwaiti United Company in the Syrian Arab Republic for one year.

Mr. Al-Sanei was a member at Kuwait Economic Society from 2006 until 2014 and Board Member of Kuwait Airways Company during 2011. In addition, he assumed the role of Chairman and General Manager for the Kuwaiti Tunisian Development Group. Mr. Al-Sanei served previously as the General Manager of the Kuwaiti Real Estate Investment Group Office in Tunisia until 2000.

Mr. Waleed Abdullah Al Roudan

Board Member representing Kuwait Investment Authority since 2017

Member of Investment Committee and Member of Audit and Compliance Committee

Mr. Al Roudan received his Bachelor's Degree in Economics from Kuwait University in 1986.

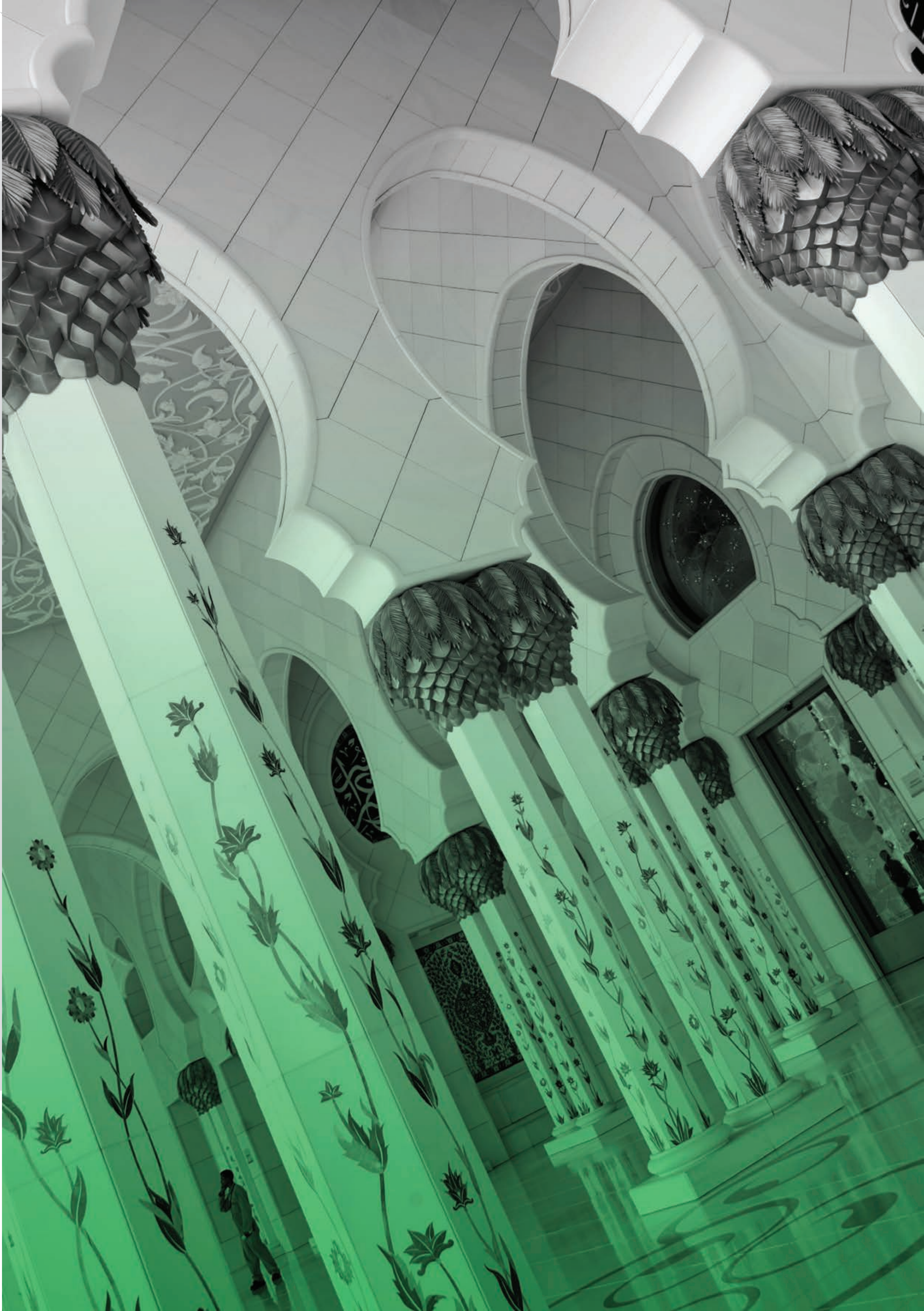
Mr. Al Roudan represents Kuwait Investment Authority as Chairman and Board Member in numerous leading companies. He holds the position of Chairman at Al-Ajyal Holding Company since 2014 and at Ekuity Holding Company from 2011 until 2015. In addition, he is a Board Member at Mobile Telecommunication Company "Zain" from 2011 until 2017 in Kuwait and its subsidiaries in Bahrain and Jordan.

Mr. Al Roudan was nominated by certain Ministries and Government Authorities to represent them in numerous Committees, Working Groups and Board of Directors. He is a member of Kuwait Authority for Partnership Projects (KAPP) since 2014 and a member of the High Committee for B.O.T projects on the state properties according to the Council of Ministers resolution passed in 2008. In addition, he represented Kuwait Investment Authority as a member of the working group assigned to solve the housing problem in Kuwait led by the Minister of State for Housing Affairs and the Minister of Electricity & Water.

Mr. Al Roudan enjoys a highly distinguished and extensive experience in the privatization process of public companies and transforming them to shareholding companies in the private sector where he has participated in the Transformation Committee of Kuwait Airways Company as per the decree issued in 1999. He was nominated by the Minister of Finance for this mission and for reviewing other company related matters in 2000. He represented Kuwait Investment Authority as per the nomination of the Council of Ministers, for the establishment, incorporation and privatization of local companies.

Mr. Al Roudan represented Kuwait Investment Authority as a Board Member in several companies in the Investment Sector in addition to other sectors including Kuwait Investment Company from 2006 until 2009, Kuwait Airways Company from 2008 until 2009, Wataniya Telecom Company from 2005 until 2011, Kuwait Real Estate Investment Group from 2004 until 2007 and the Industrial Bank of Kuwait for around 7 years until 2005. In addition, he was a distinguished Board Member at the Kuwait Egyptian Investment Company representing Kuwait Real Estate Investment Group. He represented Kuwait Investment Authority as a Board Member in several companies abroad including the Kuwaiti Egyptian Company for Plastic Pipes (Aslon Egypt) in Egypt from 1997 until 2003 and Kuwait Tunisia Holding Group from 1994 until 2002.

Mr. Al Roudan is currently working in the Public Reserves Sector at Kuwait Investment Authority which manages all local investments and investments in the Arab nations where he held several high ranking positions in this vital sector. He enjoys a long and vast experience where he held the position of Manager – Participations Department in 2006, Deputy Investment Manager in 1996, and then was promoted to several leadership positions until reaching the position of Assistant Senior Investment Manager in 2000. He continued his successful career in this sector and assumed several responsibilities since he commenced his professional career in the Local Investment Department in 1986.



The Annual Report of Fatwa and Shari'a Supervisory Board 2017

Kuwait Finance House

To the respected KFH shareholders,

Assalamu alaykum warahmatu Allah wabarakatuh,

Praise be to Allah the Almighty and Peace and Blessings be upon our Prophet Muhammad (PBUH), his family and his companions.

We have reviewed and endorsed the policies, products, services and the activities that KFH had carried out in 2017. We have also conducted the necessary review to provide our opinion on KFH compliance with Shari'a rules and principles through the fatwas, resolutions and recommendations that we have issued.

To achieve this compliance assurance, the Fatwa and Shari'a Supervisory Board held 42 meetings during the year 2017, in which it had reviewed and endorsed samples of the contracts and agreements after obtaining the necessary information to issue its opinion. The Shari'a Control and Advisory Department conducted its Shari'a Audit on randomly selected samples of all operations and transactions of KFH with the shareholders, investors and others in accordance with the Annual Shari'a Audit plan for all the Bank's departments and its subsidiaries. The Shari'a Board has also received the periodic reports that the Shari'a Control and Advisory Department has prepared about the Shari'a Audit process and operations, site visits and the compliance status of the process and implementation of the fatwa and resolutions issued by KFH Fatwa and Shari'a Supervisory Board.

We have also obtained all necessary information and clarifications to give us sufficient evidence to provide reasonable confirmation that KFH and its subsidiaries had complied with Shari'a rules and principles in all its operations that have been presented to the Fatwa and Shari'a Supervisory Board.

Through the process and steps that we followed to ascertain the compliance of KFH to the Shari'a rules, we confirm the following:

First: That the contracts and transactions which KFH had entered into during the financial year ending on 31 December 2017 as presented to us had complied with the Shari'a rules, principles and resolutions and recommendations of KFH Fatwa and Shari'a Supervisory Board.

Second: That the profit distribution and loss bearing on the investment accounts are in compliance with the terms of our approval in accordance with the rules and principles of Shari'a.

Third: That all income that has been received from non-Shari'a compliant sources or by means prohibited by Shari'a have been cleansed and donated to charitable purposes.

Fourth: That the Zakat calculation has been carried out in accordance with the Companies' Zakat Manual issued by Kuwait Zakat House, and in accordance with the resolutions and recommendations of KFH Fatwa and Shari'a Supervisory Board.

Peace be upon our Prophet Muhammad, his family members and companions and praise be to Allah, the Lord of the Universe.

Shaikh Dr. Sayyid Mohammad Abdul Razzaq Al-Tabtaba'e
Chairman

Shaikh Dr. Mubarak Jaza Al-Harbi
Shari'a Board Member

Shaikh Dr. Anwar Shuaib Abdulsalam
Shari'a Board Member

Shaikh Dr. Khaled Shuja' Al-Otaibi
Shari'a Board Member

Shaikh Dr. Esam Abdul-Raheem Ghareeb
Shari'a Board Member

Fatwa & Shari'a Supervisory Board

Sheikh Dr. Sayyid Mohammad Al-Sayyid Abdul Razzaq Al-Tabtaba'e

Chairman of Shari'a Supervisory Board

Dr. Al Tabtaba'e received his PhD in 1996, his Masters in 1993, and his Bachelor's Degree in 1988 in Islamic Jurisprudence from the Supreme Jurisdiction Institute at Al-Imam Mohammad Ibn Saud Islamic University in Riyadh, Kingdom of Saudi Arabia.

Dr. Al-Tabtaba'e is currently the Chairman of Shari'a Supervisory Board at Kuwait Finance House since 2014.

During his professional career, he held numerous prominent roles including Chairman of Personal Status Committee in Kuwait, and Member of the Board of Trustees of Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).

Dr. Al-Tabtaba'e was the former Dean of Shari'a and Islamic Studies College at Kuwait University and a Teaching Faculty Member. Dr. Al-Tabtaba'e previously held the position of Chairman of the Supreme Committee for working on applying Islamic Shari'a Law.

Sheikh Dr. Mubarak Jaza Al-Harbi

Member of Shari'a Supervisory Board

Dr. Al-Harbi received his PhD in Comparative Islamic Jurisprudence from Dar Al Ulum Faculty in Cairo University, Egypt in 2002. He received his Master's Degree in Comparative Islamic Jurisprudence from Dar Al Ulum Faculty in Cairo University, Egypt in 1998. Dr. Al-Harbi received his Bachelor's Degree in Shari'a from the Islamic University of Medina, Kingdom of Saudi Arabia in 1992.

Dr. Al-Harbi is currently a member of the Shari'a Supervisory Board at Kuwait Finance House since 2009.

Dr. Al-Harbi is member of the Fatwa and Shari'a Supervisory Board for Kuwait Finance House in Bahrain. He is also a member of the Fatwa Board at the Ministry of Awkaf and Islamic Affairs in Kuwait, and a member of Fatwa & Shari'a Supervisory Boards at various Islamic Financial Institutions and Organizations.

Dr. Al-Harbi was a Former Head of the Comparative Islamic Jurisprudence and Shari'a Policy Department at Shari'a and Islamic Studies College at Kuwait University.

Sheikh Dr. Anwar Shuaib Abdulsalam

Member of Shari'a Supervisory Board

Dr. Abdulsalam received his PhD in Islamic Jurisprudence and Usul Al-Fiqh from Al-Azhar University in Egypt in 1999. He received his Master's Degree in Islamic Jurisprudence and Usul Al-Fiqh from Al-Azhar University in Egypt in 1996. Dr. Abdulsalam received his Bachelor's Degree in Shari'a from Kuwait University in 1989.

Dr. Abdulsalam is currently a member of the Shari'a Supervisory Board at Kuwait Finance House since 2000.

Dr. Abdulsalam is the Chairman of the Fatwa and Shari'a Supervisory Board of Kuveyt Turk Participation Bank and a member of Fatwa & Shari'a Supervisory Boards at various Islamic Financial Institutions and Organizations.

Dr. Abdulsalam was a former Head of Islamic Jurisprudence and Usul Al-Fiqh Department at Shari'a and Islamic Studies College at Kuwait University.

Sheikh Dr. Khaled Shuja' Al-Otaibi

Member of Shari'a Supervisory Board

Dr. Al-Otaibi received his PhD in Islamic Jurisprudence and Usul Al-Fiqh from the Islamic University of Medina, Kingdom of Saudi Arabia in 2000. He received his Master's Degree in Islamic Jurisprudence and Usul Al-Fiqh from the Islamic University of Medina, Kingdom of Saudi Arabia in 1995. Dr. Al-Otaibi received his Bachelor's Degree in Islamic Jurisprudence and Usul Al-Fiqh from the Islamic University of Medina, Kingdom of Saudi Arabia in 1991.

Dr. Al-Otaibi is currently a member of the Shari'a Supervisory Board at Kuwait Finance House since 2014.

Dr. Al-Otaibi is a Teaching Faculty Member at the Islamic Jurisprudence and Usul Al-Fiqh Department at Shari'a and Islamic Studies College at Kuwait University. He is the Head of the Shari'a Supervisory Board at Kuwait Zakat House and the General Advisor for Kuwait Hajj Delegation and a member of Fatwa & Shari'a Supervisory Boards at various Islamic Financial Institutions and Organizations.

Dr. Al-Otaibi is Imam and Orator at the Ministry of Awqaf and Islamic Affairs in Kuwait.

Sheikh Dr. Esam Abdul-Raheem Ghareeb

Member of Shari'a Supervisory Board

Dr. Ghareeb received his PhD in Islamic Jurisprudence and Usul Al-Fiqh from Birmingham University in the U.K. in 2000. He received his Master's Degree in Islamic Jurisprudence and Usul Al-Fiqh from Birmingham University in the U.K. in 1997. Dr. Ghareeb received his Bachelor's Degree in Islamic Jurisprudence and Usul Al-Fiqh from Kuwait University in 1988.

Dr. Ghareeb is currently a member of the Shari'a Supervisory Board at Kuwait Finance House since 2014.

Dr. Ghareeb is a Teaching Faculty Member at the Islamic Jurisprudence and Usul Al-Fiqh Department at Shari'a and Islamic Studies College at Kuwait University.

Dr. Ghareeb previously held the position of Assistant Dean at Shari'a and Islamic Studies College at Kuwait University. Dr. Ghareeb previously held the position of member of the Supreme Committee for working on applying Islamic Shari'a Law.

Economic Developments 2017

First: Global Economic Developments

Following several years of lackluster performance, the global economy started to regain its growth momentum with wider steps in advanced countries, emerging markets and some of developed countries. What is more important is the growth of job opportunities again in many economies whereas there is a totally different scenario compared to that of the beginning of 2016 when the global economy was experiencing a tumbling growth and suffering from money market disturbances. We are currently experiencing a robust and accelerated recovery in economies like Europe, China, Japan, USA and emerging Asian Countries.

World Economy Outlook Report issued in October 2017 has raised its forecasts of the global growth to 3.6% for 2017 and 3.7% for 2018; i.e. one percentage point higher than former forecasts and also higher than the global growth rate, which has recorded its lowest levels since the global financial crisis whereas it reached 3.2% in 2016.

The current economic upturn covers a scope that is wider than any period during the last decade, whereas about 75% of the global economy is engaged in such accelerated business; however, the emerging countries and raw materials exporting countries, especially oil exporting countries, are still suffering from a weak growth. Similarly, there are several countries, which are witnessing political crises and tensions, mainly in the Middle East and Northern Africa.

Further, it is noted that total inflation in consumer prices has declined and the drop in oil prices during the last two years has imposed price-reducing pressures. Despite the increased growth of local demand, the core inflation in advanced economies remained weak in general. In addition, the inflation rate recorded in USA 2.1% in 2017 and is expected to reach 2.2% in 2018. In Japan, the inflation rate is estimated at about 0.5% in 2017 and is expected to decline to 0.4% in 2018. Moreover, the inflation rate in the Euro Zone is estimated at 1.5% and is expected to decline slightly to 1.4% in 2018.

Second: Advanced Economies and Emerging Markets

The International Monetary Fund (IMF) has expected that the advanced economies shall record a growth by 2.2% in 2017 and 2% in 2018 while the growth in USA is expected to rise from 1.5% in 2016 to 2.2% in 2017; then, it is anticipated to improve relatively to 2.3% in 2018.

Following the growth in the Euro zone to 2.1% in 2017 compared to 1.8% in 2016, it is expected that the growth will decline to 1.9% in 2018. Moreover, it is expected that the growth in the European countries, especially Germany and France, will rise to 2% and 1.6% in 2017 compared to 1.9% and 1.2% in 2016. In addition, the economic growth in Japan is expected to reach 1.5% in 2017 compared to 1% in 2016 but may decline again to reach 0.7% in 2018.

At the time when the emerging markets in Asia and the developing economies are continuing their economic growth recording 4.6% in 2017 against 4.3% in the preceding year, the growth in such markets is expected to continue its improvement to reach 4.9% in 2018 backed by the noticeable positive growth of 6.8% in China and 6.7% in India during 2017. Further, China is expected to witness a slight drop in the economic growth at 6.5%, which places it in the second rank after India, whereby, the growth is expected to rise significantly to reach 7.4% in 2018. IMF data indicated that the GDP in Malaysia has increased by 5.4% at the end of 2017 and is expected to decline slightly to 4.8% in 2018.

Third: Middle East & GCC

Low oil prices continued despite extending the enforce ability of the resolution concerning the scale down of production adopted by the Organization of Petroleum Exporting Countries (OPEC) in November 2016. OPEC states continue adapting to such low prices, which have weakened the growth and contributed to a significant deficit in the government budget and the Balance of Payment (BOP). The total growth in GCC countries is expected to reach its lowest level at 0.5% in 2017 along with reducing the oil production according to an agreement led by OPEC. On the other hand, the non-oil sector is expected to recover and grow to reach about 2.6% in 2017 and 2.4% in 2018.

The economic growth in the Middle East and North Africa (MENA) region recorded 5% in 2016. IMF expects that the economic growth would record 2.6% in 2017. However, this area will witness a remarkable recovery as the economic growth will reach 3.5% in 2018. Further, the growth is expected to rise and recover in KSA from 0.1% in 2017 to 1.1% in 2018 compared to 1.7% in 2016. Meanwhile, the financial deficit declined by more than 36% in KSA's public budget, according to the latest information announced by the Ministry of Finance in KSA, i.e. from 311 billion Saudi Riyals in 2016 to 198 billion Saudi Riyals in 2017. GDP growth rate in Bahrain is estimated at 2.5% in 2017 compared to approximately 3% in 2016 and is expected to reach 1.7% in 2018.

According to the given data by the Turkish Statistics Authority, the Turkish economy recorded a high record growth of 11% in the third quarter of 2017, putting Turkey in the first rank among the G20 countries. As such, the economic growth is expected to reach 7% in 2017 following Turkey's GDP stability in 2016. However, the data expects a significant GDP increase of 10.6% by the end of 2018.

The positive stable outlook of the GCC economy is supported by several factors including the rise of oil prices and the government spending. This is in light of a strong GCC economy, which witnesses a remarkable improvement in capital spending on governmental projects that will be a major driver for its economic growth and mitigate the drop in oil prices impact.

Fourth: Economic Developments in Kuwait

Kuwait's economy witnessed a significant growth in 2017 because oil prices have improved during the current year at limits falling between 50 and 60 US dollars per barrel. However, such prices remain much less than the high levels prevailed prior to 2014.

Further, it is expected that the state public budget will record a financial deficit in spite of the efforts exerted at the state level to enhance revenues and rationalize expenditure without affecting the capital spending and infrastructure projects' financing. Such procedures are represented by increasing the fuel prices late 2016, approving the new tariff of electricity and water by virtue of the ministerial resolution in March 2017, enforcing expenses' rationalization, adjusting the support, increasing the prices of certain services, increasing non-oil revenues, announcing stimulation programs to encourage citizens to work in the private sector and increasing fees and creating taxes. Such procedures may prove effective in mitigating the deficit along with the ratification of the Value Added Tax Law.

Added to that, Kuwait economic growth stabilized in 2017 against its level in 2016. The International Monetary Fund expects that the growth shall improve to record 4.1% in 2018. Oil prices have improved, particularly in the beginning of the second half of the year, whereas Brent Barrel was closed after exceeding the limit of 65 dollars according to the latest information issued on the end of 2017. It implies an increase by 20% compared to its closing price at the end of 2016 with a general optimistic atmosphere concerning the improvement of prices.

Oil production in Kuwait declined to 2.7 million barrels daily in 2017 in compliance with OPEC resolutions to reduce the production against 2.8 million barrels in 2016. However, oil production is expected to be stable in 2018 whereas exports of commodities and services have reached more than 19 Billion Kuwaiti Dinars; i.e. an increase by 18% compared to 16 billion Kuwaiti Dinars in 2016. Further, the export value is expected to increase to more than 20 billion Kuwaiti Dinars in 2018.

The Central Bank of Kuwait has resolved to raise the discount rate to reach 2.75% in March this year; i.e. an increase by 0.25% for the second time where it was increased in the same rate as it reached 2.5% in mid-December 2016. The rise in the discount rate is due to the Federal Reserve Bank's resolution to raise the discount rate by 0.25% three times in 2017, the first in March, the second in June and the last was in December to reach 1.50% at the end of the year. CBK's resolution to increase the discount rate came for the third year respectively after its resolution to increase the same at the end of 2015.

Despite the implications of the drop in oil prices, the balances of credit facilities granted to various economic sectors by Kuwaiti local banks exceeded 35.5 billion Kuwaiti Dinars, which represents 85% of the amount of Kuwaiti local banks' deposits according to the latest data issued by the Central Bank of Kuwait in November 2017 where credit facilities witnessed a rise of 4.3% on an annual basis.

Kuwait local banks' deposits increased to reach 41.7 Billion Kuwaiti Dinars according to the latest data issued in November 2017; i.e. a rise by 2.5% on annual basis. Such increase was driven by the rise of private sector's deposits to 35 billion Kuwaiti Dinars; i.e. an increase by 2.7% due to the increased deposits of the sector in local currency by 4% despite the significant decrease of the private sector's deposits in foreign currency that reached 11% . Meanwhile, the public sector's deposits increased to reach 6.7 Billion Kuwaiti Dinars approximately; i.e. an increase of 1.6% on an annual basis.

Kuwait Central Statistical Bureau has recently approved, in the mid of the current year, that 2013 to be a new base year instead of 2007 for calculating the price index. Accordingly, the inflation rate in Kuwait reached 1% on an annual basis at the end of 2017, driven by the price increase of the transportation component by 1.5% on an annual basis. Meanwhile, the price index of residential services declined slightly compared to last year's readings.

Despite the decline of the real estate transactions volume in 2016, the transactions value stabilized in 2017 recording more than KD 2.5 billion, as compared to the previous year. This stability was driven by the significant increase in the value of trades in the residential sector by 28% at the time when the trading declined in the investment sector by 20% and in the commercial sector by 39%.

Furthermore, the trading value in Boursa Kuwait witnessed a remarkable activity in 2017 to reach more than 5.7 billion Kuwaiti Dinars driven by a great activity in the first quarter of the year which has solely constituted 47% of that value; i.e. 2.7 billion Kuwaiti Dinars. Further, Boursa Kuwait has recorded positive indicators represented in the rise of the market capital value that reaches more than 27.9 billion Kuwaiti Dinars at the end of the year; i.e. an increase by 5.2% compared to 2016.

The remaining trading indices have also performed well in terms of the quantity and number of traded transactions whereas the average daily trading value reached 23 million Kuwaiti Dinars in 2017. In addition, the weighted market index increased remarkably by 5.6% while the price index of the market increased at the end of 2017 by 11.4% compared to the closing indicators at the end of 2016.

Group CEO's Message and Management Discussion

A Glance at KFH Long Journey of Success

Kuwait Finance House "KFH" has taken the lead since its inception in 1977 amongst the well-established Kuwaiti banking institutions. Today, we are concluding 2017 in synchronization with the 40th anniversary after such prideful start with its fascinating achievements realized during four decades and qualitative moves, which have translated a deep corporate insight, crystalized its shareholders' ambitions and opened new horizons for the giving of its employees to achieve leadership in the world of banking industry and as a new innovation that paved the way for the inception of the Islamic finance industry not only locally but globally as well.

KFH has continued its previous approach in implementing its strategy to expand its business, diversify the base of its activities and play a leading role in supporting infrastructure projects and development plans with an aim to enhance the position of KFH Group within a more consistent and unified framework that is based on the Islamic Shari'a rules with banking services as a main support that enables the Group to achieve the highest degrees of harmony among its subsidiaries.

KFH Group (KFH) has successfully completed the ambitious strategy for the last three years through its different core activities; led by retail banking, private banking, corporate finance and treasury activities based on the strength of our business and in enhancement of its effectiveness and efficiency with an aim of increasing the competitiveness and providing all banking services to our customers worldwide.

Outstanding Financial Indices

Such ambitious plan has achieved extremely positive results in respect of most indices of the Group whereas the net profit distributed to the shareholders increased during three years (2014 –2017) by 46%. We have significantly succeeded in rationalizing the expenses by 21% approximately, thus increasing return on equity to reach 10.1% in 2017; which is one of the highest percentages among local banks for the same year. Return on Assets raised to 1.3% in 2017.

Retail Banking and Private Banking

KFH continued to restructure and develop its branches network in compliance with the strategy of expansion, growth and cost optimization and to provide banking products and services to its customers. Retail banking and private banking paid a great attention to give the customer the first priority based on professional practices supported by high quality assets, solid and growing deposits base, highly developed customer service along with continuous endeavors to open new markets and innovations.

Digital Retail Services

KFH Group owns one of the largest branch networks at the local and global levels. Further, ATM machines cover several markets, all are supported by a huge banking services network through various electronic applications in addition to the call center, which provides round the clock direct interaction with customers and whereas its response rate reaches 90% of customers' calls within 30 seconds and succeeded in reducing the waiting period to reach 5% of the calls.

XTM service stands as one of the main banking accomplishments achieved by KFH. A transformation from traditional to electronic status via video call facility to provide round the clock more effective service to customers. The service is the first of its kind in Kuwait and shall be expanded and it is a new addition to several smart applications achieved by KFH in support of its e-banking services. Stressing on such efforts, KFH has introduced, during the year and for the first time locally and in the Middle East and Africa, the smart wallet service (KFH Wallet) in partnership with Master Card Company whereas KFH is still occupying the first rank in issuing banking cards in the Kuwaiti market.

In a new qualitative achievement, we have provided a service for opening the gold account and carrying out electronic sale and purchase transactions using mobile applications and KFH website (KFH online) alongside the nine banking branches that provide gold account opening services in response to the great turnout from the part of customers and as it is considered to be an innovative product and a promising investment opportunity for KFH customers. On the other hand, KFH has introduced an ATM service of foreign currencies at Kuwait International Airport in cooperation with the Shared Electronic Banking Services Co. (K-Net) in addition to the available long-term banking products package including Shifaa, Jameati, Thimar, and Rifaa accounts to meet customers' medical, educational and investment needs.

In 2017, KFH has, in cooperation with Visa International Company, marketed Visa Checkout solutions to facilitate the online purchase process in a secured and swift way, and to enhance KFH tendency towards digital solutions. To enrich its experience within its products package, KFH has launched an e-service enabling customers to open long-term investment accounts and deposits in addition to the possibility of submitting the application for finance services online. Also, it worked in the last year on developing KFH website and KFH mobile application adding new security facilities for customers using hand and face print identification codes for dealing with the the application in a more swift and secured environment. Demand has increased on digital services as customers using this service reached about 250 thousand customers in Kuwait. Further, KFH Turkey website has been developed and designed in Arabic, English in addition to the Turkish language. KFH Bahrain was also developed to include new additional e-services.

Banking services have been expanded at the Group level whereas "Bishara" Account was launched in both of Bahrain and Malaysia. This account is a promising product for KFH Bahrain and has been launched in the mid-2017 and was widely accepted whereas nearly 40 thousand accounts have been opened during that short period and it has been chosen as the best investment product in Bahrain, which has been reflected in the growth of the Group deposits.

Our private banking customers were able to open accounts through the Group subsidiaries. Further, KFH has signed a bilateral cooperation agreement with KFH Germany with an aim to enhance the integration of the Group business in the field of "Vostro Account" services, which is an account for KFH with KFH Germany to communicate the international transactions related data. According to this agreement, KFH has provided Clearing and Settlement services so that the subsidiary bank in Germany can remain the main driver of Islamic banking in the Euro Zone.

The number of direct sale employees increased to reach about 100 employees. This increase is expected to contribute to activating, enhancing direct banking products sales, attracting more customers and maintaining existing customers.

Private Banking

Customers trust is considered to be one of our most important objectives and it comes through distinct banking products and services introduced by the bank. KFH is always keen on providing such products and services in a manner exceeding customers' expectations in terms of quality, diversification and spread locally, regionally and globally. KFH has succeeded in structuring two new segments of customers; i.e. "Nukhba" and "Ruwaad" to serve creditworthy customers in a more efficient and effective manner through specialized relation managers and maximize customers' benefit from our expansion in Turkey, Germany, Bahrain and Malaysia. Private banking sector has continued to market a set of funds and investment opportunities including "KFH Real-estate Fund" in US dollar in value of 116 million dollars and "UK Real-estate Fund" in Sterling Pound in value of 62.5 million Sterling Pounds (83.6 Million US Dollars).

Private banking's efforts have improved performance and customers' satisfaction levels and increased the quality of service provided through our banking services to the priority customers. Some of such services have been renewed to be a modern and distinct edifice meeting our customers' aspirations and marketing competitive products that give them more options and increase their confidence in KFH.

In the field of retail finance, KFH finance portfolio has increased, accentuating KFH leadership in the finance market in general and the real-estate finance in particular, and reflecting the success and effectiveness of KFH strategy and introduced solutions and innovative tools for sustainable growth. Such strategy was keen, in 2017, on raising the quality of finance portfolio by reducing credit and market risks as per the rules and regulations organizing the finance market in Kuwait.

Corporate Finance Services

To enhance and support KFH's leading position as one of the biggest Islamic bank providing trade finance and projects finance solutions, the Group Corporate Banking has worked with a vision of being a strategic partner with our customers via a distinct work environment and through highly specialized corporate relation managers working on forming a comprehensive understanding of customers' financial requirements. Group Corporate Banking expanded its local business to reach global horizons through the full coordination and cooperation with its Group banking subsidiaries and managed to finance several leading global organizations based on KFH's vast experience in the field of corporate finance.

At the level of supporting the development plan in the State of Kuwait through launching infrastructure projects for the private sector's finance, KFH sought for establishing a specialized department for serving this kind of long-term projects in light of our available capabilities for supporting the qualitative and accurate execution of the development projects in Kuwait. Accordingly, KFH has participated in financing a contract concluded with the Ministry of Electricity and Water by providing "Cash and Non-Cash" facilities amounting to 120 Million Kuwaiti Dinars, and financed a transaction for the purchase of three aircrafts totaling 124 Million Kuwaiti Dinars in favor of ALAFCO. Further, it contributed to financing several major real-estate projects through financing certain real estate companies in value amounting to about 100 million Kuwaiti Dinars. On the international level, KFH acted as the Lead Arranger and Underwriter of a transaction for financing a complex in US dollar and in value of 180 million Kuwaiti Dinars in favor of a company that is wholly owned to a GCC Sovereign Fund. Furthermore, KFH concluded

Executive Management

a consolidated finance agreement through Kuwait Turk Participation Bank in favor of Balkant Laboratories Project in Turkey and in amount of 288 million Kuwaiti Dinars within the framework of the partnership between the public sector and the private sector and under the umbrella of Islamic Development Bank.

To cope with the government trend to establish new entities through supporting small and medium enterprises, KFH has taken the initiative, in cooperation with the National SME Development Fund, to provide technical and professional opinion and make use of all resources to achieve goals to make the government project a success due to its positive reflections on the society in general and youth segment in particular.

Treasury and Financial Institutions

KFH Treasury has focused on improving the liquidity management at the Group level by developing its human resources, IT systems and infrastructure with an aim to develop customer service through providing innovative financial solutions in both money market and capital market in conformity with the Islamic Shari'a rules.

KFH continued in maintaining a low finance cost compared to the market and supported by the high credit rating and efficiently managed liquidity in light of several products including CBK Shari'a compliant instruments.

KFH has occupied a distinct position as a main market maker of private and sovereign Sukuk whereas its trading volume exceeded 15 billion US Dollars. Such trading has been expanded through benefiting from the diversity of finance resources and Group geographical spread and in coordination with KFH Capital, which has performed well in Sukuk issuance and management in several major transactions.

Currency risk management and expansion of foreign currency usage scheme in finance operations, at the Group level, have represented a major concern for KFH. New hedging products against currency fluctuations have been created. In an unprecedented initiative, KFH has managed to create a treasury operations management system in coordination with Thomson Reuters so as to improve operations' efficiency, increase productivity rates, reduce errors and, meanwhile, establish for itself a central framework for treasury operations at the Group level through a trading system that searches automatically for the best prices in order to contribute to improving the efficiency of the decision of Exchange Rate Traders in addition to the appointment and development of young Kuwaiti talents that are able to complete trading quickly and effectively

Further, the Financial Institutions Department has successfully participated in a consolidated finance deal in value of 400 million dollars in favor of Warba Bank for a period of three years

Operations

Year 2017 witnessed several achievements in light of the data and determinants required by CBK and under the Group's general policy, which aims at proceeding in the process of developing and providing new services and products to KFH customers.

Group Operations Department has adopted several projects to develop the automated systems used in addition to a set of initiatives that enhance its centralization, organize the segregation of sales' activities from operations and its respective adjustments, which will reduce operational risks to its lowest. In addition, it has restructured operations to cope with the best global practices and managed to qualify the specialized employees to perform their duties in the best possible manner. Further, Group Operations succeeded in executing initiatives for the centralization of personal finance, individual and commercial deductions and banking guaranty related operations from all branches and direct sale operations.

Group operations has centralized SWIFT transactions at the Group level to achieve the optimal usage of automated systems and consolidate them at KFH and subsidiaries. This process has increased the efficiency, effectiveness and cost optimization. KFH Malaysia was registered within KFH Kuwait register at SWIFT Company. Other subsidiary bank's listing in Turkey and Bahrain would be completed during 2018, thus saving effort and minimizing cost and operational risks.

Group Operations enhanced KFH leadership in providing automated channels to customers, which reduces expenses and operational risks in regards to financial transfers and salaries to the minimum limit whereas the number of subscribers of companies and institutions has increased by 70%.

Group Operations succeeded in developing ATM & POS Claims System, which reviews customers' claims related to ATM machines and Points of Sale so as there is an automatic link between the system and the e-Journal, thus minimizing the claims settlement period to one working day.

Information Technology

KFH has won the best Digital Bank award in Kuwait for 2017 from Global Finance, which was a result of our modern strategy in information technology. IT Department has contributed to operating several initiatives and systems during the year with an aim to continue in improving business quality and enhancing the integration among Group parties. The implementation of the best-automated systems this year has enabled us to complete several vital projects; e.g., XTM system, which provides comprehensive and direct banking services through video technology. IT has also participated in providing instant issuance of customer's cards in banking branches, supervising and constantly updating KFH website (kfh.com), which led to creating and finding several business opportunities through meeting customers' needs in a better way.

Human Resources

Group Human Resources continued developing its' Human Capital during this year whom are the most valuable asset for KFH resulting in the exchange of experiences and knowledge in all banking, investment, and other activities. Developing and maintaining a strong employment brand that attracts talent and creates opportunities for all staff to grow as banking professionals remains our key Human Resources challenge. This year has seen many initiatives that support this HR vision along with significant enhancements in our HR efficiencies, Data Analytics and Group Integration. In addition, we have successfully rolled out Oracle HR in a number of subsidiaries and are planning to include more next year, thus providing standardized practices across the Group, enhanced analytical capability, and enabling us to focus on the development of our Successors and High Potential employees across the Group where various leadership development initiatives have taken place in our Banking Subsidiaries. In KFH Kuwait, more than 200 individual assessments were concluded to identify specific development plans for future leaders. The identified development opportunities range from high profile development programs using top business schools like Harvard Business School and IMD to one off assignments in our various subsidiaries, or implementing initiatives across the Group.

KFH Kuwait maintains a healthy Kuwaitization ratio of 66% at a bank wide level, where Kuwaiti Nationals make up more than 50% of the Executive Leadership. This healthy ratio has largely been achieved through internal progression and ensuring that the majority of all talent acquisition is Kuwaiti (90% for 2017).

Across KFH Group, we ensure that training and development takes center stage in our talent management framework and this year is no different, as a Banking Group, we have provided over 3,595 different training workshops on diverse topics in additional to e-learning courses to cover more than 85% of our staff.

Our annual Employee Survey is considered one of the largest single HR initiative that is run across the Group and impacts over 10,000 employees worldwide. This year, KFH Group had participation percentages in the high 80's, signifying the willingness of all our staff wanting to contribute to the to the development of KFH. For the second year in a row, KFH Group has obtained an Employee Engagement score above 70%, which compares favorably with other high performing companies around the world.

KFH continued supporting its staff through offering scholarship programs which is now in its fifth year. On an annual basis, we have staff joining local universities on Graduate and Post Graduate programs as a plan to continue their education over and above their usual required vocational learning where this year saw the graduation of its second batch of graduates'. By the grace of Allah, we will continue focusing on moving to an engaged, enabled and therefore effective workforce next year along with implementing our HR vision to attract, retain and grow talent to promote the performance levels, while continue improving the Islamic Banking Industry and the communities in which we operate.

Awards and Recognitions

Several high-ranking awards were granted to KFH in the field of Islamic finance. The Bankers magazine, a subsidiary of Financial Times, awarded KFH three awards: Islamic Bank of the Year 2017 Globally, Middle East, and

Kuwait. The Global Finance Magazine also awarded KFH as the Best Islamic Project Finance Provider 2017 Globally. The same Magazine also awarded KFH Germany as the Best Up-And-Coming Financial Institution 2017 Globally.

Group Risk Department

In 2017, Group Risk Department circulated all policies and procedures for assessment of Group risks. All policies and methodologies have been circulated to achieve Risk Department integrity at the Group level. Automation development process has continued in regards to Risk Department reporting system to save time and effort, enhance analytical capabilities of the Group Risk Department and improve decision making mechanism. Finishing touches have been applied for the implementation of the International Financial Reporting Standard IFRS9, in coordination with Group Financial Control Department.

Compliance department succeeded in fulfilling regulatory requirements and coping with the decisions and instructions issued by the Central Bank of Kuwait and Capital Market Authority. Such instructions include Basel III standards on capital adequacy, liquidity and corporate governance standards.

The Bank's Capital Adequacy Ratio reached "17.76%", thus exceeding regulatory requirements limit.

KFH & Society

KFH achieved a successful social role relevant to its message since inception. KFH's social responsibility and contribution was diversified and comprehensive for development of society and environment, thus nurturing the concept of "sustainable growth". KFH has adopted certain fundamental aspects to perform its social role including education, health, youth and support of sponsorships activities and services provided by official authorities and institutions as part of the state trend to achieve comprehensive development.

Business plans and programs executed during 2017 have incarnated KFH's keenness to contact and communicate with various society tiers. KFH has focused this year on global initiatives and international events launched by UN in regards to social and human issues by spreading awareness and enhancing the concepts of volunteering in different forms and events. KFH has patronized several awareness and educational campaigns in addition to its activities to serve all society tiers and the local and regional environment.

Finally, I would like to avail this opportunity to convey our sincere gratitude and appreciation to our shareholders and customers for their continuous and valuable support. We are confident, by the Grace of Allah, that we will continue to achieve distinction in performance, render customer as a top priority, avail all available opportunities, enhance group capabilities to encounter all challenges to develop business on the long run and achieve rewarding returns for our shareholders.

Our success is mainly attributed after the grace of Allah to our employees' endeavor and the valuable trust that our customers and shareholders have bestowed upon us. We would like to extend our deep thanks and gratitude to our shareholders and customers for their continuous support. In addition, we would like to convey our sincere thanks and appreciation to KFH Board Members and Shari'a Board for their distinguished efforts to enhance KFH credibility. We shall always seek to execute our plan in a systematic and orderly fashion and achieve more success for our reputable organization.

Mazin Saad Al-Nahedh
Group Chief Executive Officer

Financial Performance 2017

11.5% Increase in Net Profit for Shareholders

Net profit for shareholders increased to reach more than KD 184 million i.e. an increase by 11.5% compared to 2016. Accordingly, earnings per share reached 32.41 Fils as at the end of 2017 compared to 29.1 Fils as at the end of 2016 i.e. an increase by 11.4%.

8.1% Increase in Total Operating Income

KFH Group total operating income increased to reach KD 713.3 million for the year 2017 i.e. an increase by 8.1% compared to 2016. This increase resulted from increase in core activities' income and other income. Financing income increased to reach KD 740.5 million i.e. an increase by 3.2% compared to 2016. Financing cost and distribution to depositors reached KD 296 million. Accordingly, net financing income reached KD 445 million i.e. an increase by 2.3% which represents 62.4% of total operating income. Fees and commissions income increased by 9% compared to 2016, thus reaching KD 97 million which represents 14% of total operating income. Investment income increased by 35% compared to 2016 resulted from divestments made by the group from non-core investments during 2017 which is in accordance with the Group's strategy to focus on banking activities. Other income increased by 14% compared to 2016.

2% Decline in General & Administrative Expenses and 6% in Depreciation & Amortization Expenses

Management continued its efforts to optimize costs at the group level, thus resulting into a decline by 2% in general and administrative expenses compared to 2016 and a decline by 6% in depreciation and amortization expenses. Accordingly, decline in total operating expenses to total operating income for the third year respectively to reach 42.76% in 2017 compared to 44.71% in 2016.

Net increase in staff costs by KD 13.9 million as a result of the amendments made during 2017 in the Kuwaiti Labor Law with regard to employees' short term and post employment benefits resulting in an additional liability to employees' end of service benefits and staff cost amounting to KD 17.6 million.

5.2% Growth in Group Assets

KFH Group Assets increased in 2017 to reach KD 17.4 billion as at the end of 2017 i.e. an increase of KD 859 million or 5.2% compared to 2016.

12.7% Growth in Financing Receivables

Financing receivables increased to reach KD 9.2 billion i.e. an increase exceeding KD 1 billion or 12.7% compared to 2016 which represents 53% of KFH Group total assets compared to 50% in 2016.

Increase in short term Murabaha by 1.7% to exceed KD 2.9 billion or 17% of total assets of KFH Group.

30% Growth in Islamic Sukkuk

Increase in group investments in Islamic Sukuk by 30% or more than KD 1.4 billion which represents 8.2% of the group's total assets compared to 6.7% in 2016.

8.2% Growth in Depositors Accounts

KFH Group efforts has resulted into acquiring more customers, thus increasing deposits balances to reach KD 11.6 billion as at the end of 2017 i.e. an increase by KD 880 million or 8.2% compared to 2016.

3.4% Growth in Shareholders' Equity

Shareholders' equity increased to reach KD 1.9 billion i.e. an increase by 3.4% compared to last year.

Rate of Return on Average Assets, Average Equity and Capital Adequacy

The Rate of Return on Average Assets increased to reach 1.26% as at the end of 2017 compared to 0.97% during 2016. Rate of Return on Average Equity approximated 10.15% compared to 9.28% in 2016.

Capital adequacy reached 17.76% as at the end of 2017 which is higher than the ratio determined by CBK.

Proposed Dividends to Shareholders

The Bank's Board of Directors proposed the distribution of cash dividends to shareholders by 17% for the year ended 31st December 2017 (17% in 2016) and the issuance of bonus shares by 10% (10% in 2016) of the paid up capital subject to the ordinary general assembly approval and finalization of official and legal procedures.

Proposed directors' remuneration reached KD 878 thousand for the year ended 31 December 2017 (KD 772 thousand in 2016) which is considered within the limit permissible as per local regulations and subject to ordinary general assembly approval.

Summary of Significant Financial Results

KD Million

	2017	2016	2015
Net profit attributable to shareholders of the bank	184.2	165.2	145.8
Earnings per share – Fils	32.41	29.10	25.70
Total financing income	740.5	717.9	695.1
Net finance income	444.8	434.9	431.7
Total assets	17,358	16,499	16,495
Financing receivables	9,216	8,176	8,095
Investment in Sukuk	1,429	1,100	807
Depositors' accounts	11,597	10,717	10,756
Equity attributable to the shareholders of the bank	1,872	1,810	1,779

Executive Management

Mr. Mazin Saad Alnahedh

Group Chief Executive Officer

Mr. Alnahedh received his Bachelor's of Science Degree in Business Administration in Finance from California State University - Sacramento in the U.S. in 1993. He completed numerous specialized Executive Programs including the General Management Program (GMP) at Harvard Business School in the U.S. in 2008.

Mr. Alnahedh is currently the Group Chief Executive Officer at Kuwait Finance House since 2014. In addition, Mr. Alnahedh is the Chairman of KFH Capital Investment Company and Board Member of Kuveyt Turk Participation Bank.

Mr. Alnahedh possesses a vast banking experience, spanning more than 24 years. During his professional career, he held numerous prominent leadership roles at the National Bank of Kuwait including his role as a member of the Executive Management from 2010 until 2014, General Manager Consumer Banking Group from 2011 until 2014, General Manager Corporate Banking Group from 2008 until 2011, and General Manager Treasury Group in 2008. In addition, he was promoted to various leadership positions within the Treasury Group from 1993 until 2008.

Mr. Shadi Ahmad Zahran

Group Chief Financial Officer

Mr. Zahran received his Master of Business Administration (MBA) Degree in Finance from the University of Manchester in the U.K. in 2014. He received his Bachelor's of Science Degree in Accounting from the University of Jordan in 1992.

Mr. Zahran is a member of the Board of Trustees of the Accounting and Auditing Organization for Islamic Financial Institution (AAOIFI) and a Board Member of the General Council for Islamic Banks and Financial Institutions (CIBAFI). Mr. Zahran holds several specialized professional certificates including Certified Public Accountant (CPA) from the state of Illinois in the U.S. since 1996, an Auditing License from the Council of the Auditing Profession in Jordon since 1996, and Certified Islamic Professional Accountant (CIPA) from the Accounting and Auditing Organization for Islamic Financial Institutions since 2006.

Mr. Zahran is currently the Group Chief Financial Officer at Kuwait Finance House since 2014. In addition, Mr. Zahran is the Vice Chairman of KFH Capital Investment Company and Board Member at Kuwait Finance House - Bahrain.

Mr. Zahran previously held several executive positions at Ahli United Bank Group including General Manager - Finance in Kuwait from 2009 until 2014 and Head of Group Financial Controlling at Ahli United Bank in Bahrain from 2005 until 2009.

Mr. Zahran previously held the position of Head of Financial Systems Management & Operations Department at Al Rajhi Bank in the Kingdom of Saudi Arabia from 2000 until 2005. In addition, Mr. Zahran previously worked as an External Auditor at the international external audit firm Ernst & Young.

Mr. Fahad Khaled Al-Mukhaizeem

Group Chief Strategy Officer

Mr. Al-Mukhaizeem received his Master of Business Administration (MBA) and Master's Degree in Economics from Boston University in the U.S. in 2000. He received his Bachelor's of Science Degree in Engineering and Bachelor's Degree in Economics from Tufts University in the U.S. in 1996. Mr. Al-Mukhaizeem successfully completed many training programs in addition to the Leadership Development Program at Harvard Business School in 2008.

Mr. Al-Mukhaizeem is currently the Group Chief Strategy Officer at Kuwait Finance House since 2015. In addition, Mr. Al-Mukhaizeem is the Chairman of International Turnkey Systems Group (ITS).

Mr. Al-Mukhaizeem possesses a vast banking experience, spanning more than 16 years. During his professional career, he held numerous prominent leadership roles at Kuwait Finance House including Group General Manager - Strategy & Corporate Affairs from 2013 until 2015. Mr. Al-Mukhaizeem previously held several executive positions within Retail Banking and other Areas at Kuwait Finance House.

Mr. Al-Mukhaizeem successfully supervised the execution of several initiatives concerning the bank's business development in addition to being an effective member in several Restructuring Programs at KFH during his career in addition to establishing many Departments within different areas at KFH.

Mr. Waleed Khaled Mandani

Group Chief Retail and Private Banking Officer

Mr. Mandani received his Bachelor's of Science Degree in Business Administration from the University of Arizona in the U.S. in 1992. Mr. Mandani successfully completed a specialized training course in Decision Making Strategies at Harvard Business School in 2015 and an Executive Program in Project Management & Leadership from Cornell University in the U.S. in 2011.

Mr. Mandani is currently the Group Chief Retail and Private Banking Officer at Kuwait Finance House since 2017. In addition, Mr. Mandani is a Board Member of KFH Capital Investment Company.

Mr. Mandani previously held several executive positions including Group General Manager Private Banking at Kuwait Finance House from 2015 until 2016 and Director of Wealth Management at BNP Paribas in Kuwait from 2005 until 2014 where he has represented the bank at Kuwait Banking Association. In addition, Mr. Mandani served as Senior Manager - Private Banking at Ahli United Bank Kuwait from 2001 until 2005.

Mr. Ahmed Soud AlKharji

Group Chief Corporate Banking Officer

Mr. AlKharji received his Master of Business Administration (MBA) Degree in Finance from University of San Diego in the U.S. in 1998. He received his Bachelor's of Science Degree in Finance and Banking from Kuwait University in 1994. Mr. AlKharji successfully completed the Management Program at Harvard Business School.

Mr. AlKharji is currently the Group Chief Corporate Banking Officer at Kuwait Finance House since 2016. In addition, Mr. AlKharji is a Board Member of Kuveyt Turk Participation Bank, Board Member of Kuwait Finance House - Malaysia, and Board Member of KFH Capital Investment Company.

Mr. AlKharji previously held the position of CEO and Managing Director at Kuwait Finance House - Malaysia from 2015 until 2016 and held the position of Deputy General Manager Structured Finance at Kuwait Finance House from 2014 until 2016.

Mr. Abdulwahab Issa Al-Rushood

Group Chief Treasury Officer

Mr. Al-Rushood received his Bachelor's Degree in Mathematics and Computer Science from Western Oregon State College in the U.S in 1987. Mr. Al-Rushood successfully completed a specialized training course on Strategic Leadership at Harvard Business School.

Mr. Al-Rushood is currently the Group Chief Treasury Officer at Kuwait Finance House since 2015. In addition, Mr. Al-Rushood is a Board Member at Kuwait Finance House - Bahrain and a Board Member of Aviation Lease & Finance Company (ALAFCO). Mr. Al-Rushood represents Kuwait Finance House at the General Council for Islamic Banks and Financial Institutions (CIBAFI) in Bahrain and serves as a member of the Advisory Board.

Mr. Al-Rushood possesses a vast banking experience, spanning more than 28 years. During his professional career, he held numerous prominent leadership roles at Kuwait Finance House including General Manager - Kuwait Treasury from 2013 until 2015. In addition, he was promoted to various leadership positions within the Treasury Department from 2002 until 2013.

Mr. Al-Rushood served as Board Member for numerous leading companies including Kuwait Finance House - Malaysia from 2007 until 2013, Liquidity Management House (KFH Investment Company) from 2008 until 2013, Development Enterprises Holding Company (DEH) from 2014 until 2016 and Liquidity Management Centre - Bahrain (LMC) from 2006 until 2016.

Mr. Srood Ahmed Sherif

Group Chief Information Officer

Mr. Sherif received his Bachelor's of Science Degree in Physics from Al-Mustansiriyah University in Iraq in 1975.

Mr. Sherif is currently the Group Chief Information Officer at Kuwait Finance House since 2014. In addition, Mr. Sherif is the Vice Chairman of International Turnkey Systems Group (ITS).

Mr. Sherif previously held several executive positions including Chief Information Officer at the National Bank of Kuwait from 2013 until 2014 and Group Chief Information Officer at National Bank of Abu Dhabi until 2013.

Mr. Sherif possesses specialized experience in the Information Technology field at Financial Institutions, specifically in mapping the business objectives to the Information Technology strategies. In addition, Mr. Sherif has experience in Systems Architecture, Applications Design & Development and Programme Management in addition to possessing a unique background in managing large Data Centers and managing major Information Technology projects.

Mr. Frederick Jacobus Carstens

Group Chief Human Resources Officer

Mr. Carstens received his Master's Degree in Commerce from the University of Johannesburg in South Africa in 2006. He received his Honors Degree in Industrial Psychology from the University of the Orange Free State in South Africa in 1991 and his Bachelor's Degree in Personnel Management from the University of the Orange Free State in South Africa in 1990.

Mr. Carstens is currently the Group Chief Human Resources Officer at Kuwait Finance House since 2016.

Mr Carstens brings with him over 25 years of Human Resources experience, more than 17 years of Banking experience and he has been working in the region since 2006 where he previously held several executive positions including Deputy Head of Human Resources at Commercial Bank of Dubai from 2014 until 2016 and Assistant General Manager of Human Resources Group at National Bank of Kuwait from 2008 until 2014.

Mr Carstens has extensive management experience in all aspects of Human Resources and is adept at driving change and transformation in the organizations that he is employed in.

Mr. Abdullah Mohammed Abu Alhous

Group Chief Operations Officer

Mr. Abu Alhous received his Bachelor's Degree in Business Administration in Finance and Banking from Kuwait University in 1987. He completed numerous specialized Executive Programs including the General Management Program (GMP) at Harvard Business School in the U.S. in 2008, Accelerated Development Programme (ADP) at London Business School in the U.K. in 2006, and Young Managers Programme (YMP) at INSEAD in France in 2003.

Mr. Abu Alhous is currently the Group Chief Operations Officer at Kuwait Finance House since 2015. In addition, Mr. Abu Alhous is a Board Member of International Turnkey Systems Group (ITS).

Mr. Abu Alhous previously held several executive positions including Group General Manager Operations at Kuwait Finance House from 2012 until 2015, Chief Operations Officer at Warba Bank from 2011 until 2012 and Deputy General Manager of Operation Group at the National Bank of Kuwait from 2005 until 2011

Mr. Wissam Sami El-Kari

Group Chief Internal Auditor

Mr. El-Kari received his Master of Applied Finance Degree from the University of Melbourne in Australia in 2002. He received his Bachelor's Degree in Business Administration from the American University of Beirut, Lebanon in 1996.

Mr. El-Kari holds many specialized professional certificates including Financial Risk Manager (FRM) from the U.S. in 2012, Certified Fraud Examiner (CFE) from the U.S. in 2008, and Certified Internal Auditor (CIA) from the U.S. in 2001.

Mr. El-Kari is currently the Group Chief Internal Auditor at Kuwait Finance House since 2017.

Mr. El-Kari possesses a vast experience, spanning more than 18 years and a solid experience in assessing Internal Controls, Risk Management, and Governance Processes. During his professional career, he held numerous prominent leadership roles where he has been Heading the Group Internal Audit Department at Kuwait Finance House since 2012. In addition, Mr. El-Kari served as Assistant General Manager Internal Audit, Banking Operations at Burgan Bank in Kuwait from 2005 until 2012.

Mr. Leslie J. Rice

Group Chief Risk Officer

Mr. Rice received his Bachelor's Degree in Economics from the City of London Polytechnic in the U.K in 1975. Mr. Rice is a Fellow of the Chartered Institute of Management Accountants.

Mr. Rice is currently the Group Chief Risk Officer at Kuwait Finance House since 2016.

Mr. Rice possesses a vast banking experience. During his professional career, he held numerous prominent leadership roles with increasing levels of responsibility where he commenced his professional career at Grindlays Bank in London.

Mr. Rice has a significant experience in Banking, Finance, Compliance, and Risk Management. His regional banking experience includes executive positions at Riyad Bank, Emirates NBD, and Boubyan Bank where he previously held the position of General Manager - Risk Management.

Dr. Khaled Mohammed Al Jumuah

Group General Manager Legal

Mr. Al Jumuah received his PhD in International Economic Law from the University of Wales in the U.K. in 1997. He received his Master's Degree in Law from the University of Edinburgh in the U.K. in 1993. Mr. Al Jumuah received his Bachelor's Degree in Law from Kuwait University in 1988.

Mr. Al Jumuah is currently the Group General Manager Legal at Kuwait Finance House since 2015.

Mr. Al Jumuah previously held several consultant positions including Legal Consultant at the Central Bank of Kuwait in 2012 and the Legal Consultant at the Office of Secretary General of the Organization of Arab Petroleum Exporting Countries "OAPEC" in 1999. In addition, Mr. Al Jumuah previously worked in the legal field at the Legal Consultancy Group Office in 1998. Prior to that, Mr. Al Jumuah held the position of Chief Legal Consultant at Kuwait Oil Company from 1988 until 1998.

Mr. Fadi Elias Chalouhi

Group General Manager Retail Banking

Mr. Chalouhi received his Master of Business Administration (MBA) Degree from the American University of Beirut, Lebanon in 1999. He received his Bachelor's Degree in Computer & Communications Engineering from the American University of Beirut, Lebanon in 1994.

Mr. Chalouhi is currently the Group General Manager Retail Banking at Kuwait Finance House since 2016.

A well-renowned and seasoned banking professional with over 15 years' experience, underpinned by a strong academic background and a solid experience in Treasury, Derivatives, Asset Management and Retail Banking.

Mr. Chalouhi previously held several executive positions at the National Bank of Kuwait including Deputy General Manager Consumer Banking Group - Kuwait from 2015 until 2016, Assistant General Manager Consumer Banking Group - Kuwait from 2011 until 2015, and Executive Manager in the Treasury Group from 2008 until 2011.

Mr. Abdulla Abdulmohsen Al-Mejhem

General Manager Private Banking

Mr. Al-Mejhem received his Master of Business Administration (MBA) in Finance and Financial Institutions from Kuwait University in 2006. He received his Bachelor's Degree in Accounting from Kuwait University in 2001.

Mr. Al-Mejhem successfully completed a specialized training course in Decision Making Strategies and Strategic Leadership at Harvard Business School and attended numerous professional courses and executive programs in Ethics and Leadership. Mr. Al-Mejhem holds a Chartered Accountant Designation and is a member of the Kuwaiti Association of Accountants and Auditors since 2001.

Mr. Al-Mejhem is currently General Manager Private Banking at Kuwait Finance House since 2017.

Mr. Al-Mejhem held numerous prominent leadership roles at Kuwait Finance House including Deputy General Manager Private Banking from 2015 until 2016, Executive Manager Investment Consultants from 2013 until 2015 and Executive Manager - Market and Liquidity Risk Management in 2013.

Mr. Al-Mejhem previously held positions in the Financial Consultancy and Risk Management field including Deloitte & Touche from 2009 until 2012.

Mr. Al-Mejhem completed a 2 year specialized training program for graduates at Kuwait Investment Authority (KIA) where he joined Kuwait Investment Office in London and Goldman Sachs London.

Mr. Abdelrashid Mohamed Ibrahim

General Manager Corporate Banking Kuwait

Mr. Ibrahim received his Bachelor's of Commerce Degree in Accounting from Assiut University in Egypt in 1967. He completed several professional and specialized training diplomas and training courses in the fields of Investment, Finance, Credit, Banking, Planning, and Assets and Liabilities Management.

Mr. Ibrahim is currently the General Manager Corporate Banking Kuwait at Kuwait Finance House since 2016.

Mr. Ibrahim possesses a vast experience in Banking and Financial Institutions. During his professional career, he held numerous prominent leadership roles including Deputy General Manager Corporate Banking at Kuwait Finance House from 2014 until 2016, Chief Financial Officer at Jiran Holding Company from 2013 until 2014 and Chief Financial Officer at Tarek Al-Ghanem Holding Company in Kuwait from 2001 until 2012.

Mr. Ibrahim previously held several executive positions at the National Bank of Kuwait including Assistant General Manager Corporate Banking in 2001 and Executive Manager at the Corporate Credit Department from 1995 until 2001.

Mr. Gehad Mohamed El-Bendary

Group General Manager Risk Management

Mr. El-Bendary received his Finance & Risk Management Diploma from the University of Wales in the U.K. in 2014. He received his Bachelor's of Commerce Degree in Accounting from Tanta University in Egypt in 1996.

Mr. El-Bendary holds numerous specialized professional certificates including the International Certificate in Banking Risk and Regulation (ICBRR) from the Global Association of Risk Professionals (GARP) in 2009.

Mr. El-Bendary is currently the Group General Manager Risk Management at Kuwait Finance House since 2016.

Mr. El-Bendary has over 18 years' experience in Risk Management, Auditing and Internal Control Systems in Financial Institutions.

Mr. El-Bendary previously held several executive positions at Kuwait Finance House including the position of Deputy General Manager - Portfolio & Enterprise Risk Management from 2013 until 2016, Head of Enterprise Risk Management Unit from 2012 until 2013, and Head of Risk Unit from 2007 until 2012.

Mr. El-Bendary oversaw the implementation of several initiatives including the development of a robust Enterprise Wide Risk Management Program for KFH Group by establishing a framework, reviewing policies, designing a governance structure which ensures an independent oversight for assessing if respective functions are adhering to defined Board approved strategy, Risk Policies, Risk Standards including Risk Appetite in addition to overseeing the implementation of the regulators' instructions including Basel I, II and III.

Mr. Ahmad Eissa Al-Sumait

General Manager Treasury Kuwait

Mr. Al-Sumait received his Bachelor's Degree in Political Science from Kuwait University in 1999. Mr. Al-Sumait successfully completed a specialized training course on Decision Making Strategies at Harvard Business School.

Mr. Al-Sumait is currently General Manager Treasury Kuwait at Kuwait Finance House since 2017. In addition, Mr. Al-Sumait is the Chairman of the Energy House Holding Company and Vice Chairman of Kuwait Financial Markets Association.

Mr. Al-Sumait possesses a vast banking experience, spanning more than 17 years. During his professional career, he held numerous prominent leadership roles at Kuwait Finance House including Executive Manager Money Market from 2016 until 2017 and Senior Manager Money Market from 2015 until 2016. In addition, he was promoted to various leadership positions within the Treasury Department from 2006 until 2015.

Mr. Al-Sumait served as Board Member of Liquidity Management House from 2012 until 2013

Corporate Governance Report

Governance Report

Introduction:

KFH has established the governance as the corner stone for conducting its banking activities. This comes as part of the continuous development process of governance which KFH conducts.

KFH Board of Directors has exploited all potentials to review and develop work policies and procedures applied to ensure full abidance by Central Bank of Kuwait instructions on governance. KFH fully meets its corporate governance obligations and implements all mandatory requirements. KFH implements all governance rules and regulations at Kuwaiti Banks issued in 2012 and Shari'a Control governance instructions at Kuwaiti Islamic banks issued on 2016.

KFH Board of Directors is always keen on spreading governance awareness at all administrative levels. KFH Board seeks to go beyond regulatory authorities instructions in order to fulfill governance requirements through the implementation of the best global practices on governance.

The board governance committee oversees governance process, provides necessary consultancy services and assist the Board of Directors in fulfilling its regulatory obligations relating to appropriate governance practices by providing a set of guidelines on corporate governance and playing a leading role in drawing up governance policies.

Governance Committee has played a leading role in 2017 and exerted all efforts to ensure KFH abidance by CBK instructions on Shari'a Governance at Islamic Banks.

KFH conducts a regular review on governance updates and the standards issued by global organizations on governance. It also conducts a periodical review on governance applications to assess their efficiency against all challenges encountered by the bank and to protect the interests and rights of shareholders and stake holders and ensure that all information reach on time with great transparency and neutralism in implementation of KFH approved disclosure policy.

KFH ensures that all subsidiaries implement the group's approved corporate governance policy in addition to the instructions imposed by other regulatory authorities inside and outside Kuwait. All subsidiaries are subject to auditing and periodical review to improve governance performance at the group level.

The Corporate Governance Manual of KFH and its subsidiaries has been prepared and published on KFH's website. Generally speaking, KFH has always taken the lead in implementing all various aspects of governance rules and regulations. KFH ensures to abide by all new standards and regulations. KFH continues its operations to develop governance systems and mechanisms at the group level in accordance with the best global practices on governance.

Ownership Shares: as 31/12/2017

Name	Ownership Form	Country	Ownership Ratio
Kuwait Investment Authority	Direct	Kuwait	24.079%
Public Authority for Minors' Affairs	Direct	Kuwait	10.484%
General Foundation of Awkaf	Direct	Kuwait	7.296%
Public Institution for Social Securities	Indirect	Kuwait	6.19%

Board Members' Duties and Responsibilities

1- General Responsibilities of the Board of Directors

The Board of Directors shall bear the overall responsibility of KFH including the development of strategic goals, risk strategy, sound governance principles, and the application and oversight of the proper application of these goals and principles in addition to the responsibility of supervising executive management including the CEO.

The Board of Directors shall bear full responsibility for KFH's operations and sound financial position. Accordingly, the Board shall ensure compliance with the Central Bank of Kuwait's requirements; preserve the interests of the shareholders, depositors, creditors, employees and other stakeholders and related parties. In this context, the Board shall ensure that KFH is being managed prudently and in line with KFH applicable rules, regulations and bylaws.

2- Board Structure

Pursuant to KFH Articles of Association, the Board of Directors shall comprise ten members elected by the General Assembly through a secret ballot. Nomination was opened for membership in the Board on the 20th of March 2017. The General Assembly elected the board members. Accordingly, a new Board was formed in the 14th session. The Board office term is three years and a member may be reelected for another term. The current Board of Directors consists of Chairman, Vice Chairman and eight board members who duly represent the quorum required for forming the Board Committees in accordance with the sound governance principles set by the Central Bank of Kuwait.

2-1 Chairman's Role

Considering the significance of this role, Chairman shall ensure proper functioning of the Board, maintain mutual trust among the board members, and ensure that the decision–making process is based on sound grounds and accurate information. He shall ensure exchange of viewpoints among board members and timely reporting of sufficient information to board members and shareholders.

The Chairman shall play a major role in maintaining constructive relationship between the Board and the Executive Management and ensure KFH has sound governance principles in place.

3- The Relationship between the Board of Directors and the Executive Management

KFH maintains cooperation and clear segregation of duties, functions and powers between the Board of Directors and Executive Management, thus satisfying a key requirement of sound corporate governance. As such, the Board shall take responsibility to provide guidance and leadership, while Executive Management. shall take responsibility for drawing up and implementing the strategies and policies approved by the Board while ensuring that the board and its members are totally independent from the Executive Management. The Board shall also ensure that the Executive Management is in strict compliance with the policies preventing and prohibiting the activities and relations which might contradict with and compromise sound principles of corporate governance i.e. Conflict of Interests Policy and the Remuneration Policy.

4- Organizing Board Activities

The Board of directors held (16) meetings during 2017 within the current 14th session elected on 20th March 2017 i.e. 4 meetings during each quarter of 2017, while it had held (18) meetings during 2016. A meeting is called for whenever the need arises. The number of meetings held exceeded regulatory requirements concerning corporate governance, which shall not be less than 6 meetings per year and not less than one meeting per quarter. The resolutions adopted during board meetings are binding and considered as an integral part of KFH records.

In 2017, the Board has passed 10 resolutions by circulation, while the board committees have passed 17 resolutions by circulation.

The Chairman discusses with the Executive Management important issues which are proposed to be added to the agenda and provides the board members with sufficient information in advance in order to take decisions. The Board Secretary shall take down all board discussions, recommendations and voting results that take place during the meeting. The responsibilities of the chairman and members of the board are set in writing as per all related legislations and regulations.

5 - Board Meetings

Names of board members and number of meetings held during 2017

Name	Meeting dates in 2017																Attendance %
	10 Jan	18 Jan	6 Feb	6 Mar	20 Mar	12 Apr	11 May	5 Jun	6 Jul	10 Jul	24 Jul	22 Aug	27 Sep	9 Oct	12 Nov	11 Dec	
Mr. Hamad Abdul Mohsen Al Marzouq Chairman	√	√	√	√	√	√	√	√	X	X	√	√	√	√	√	√	88
Mr. Abdul Aziz Yacoub Alnafisi Vice Chairman	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	100
Mr. Khaled Salem Al Nisf	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	100
Mr. Muad Saud Al Osaimi	√	X	√	√	√	√	√	√	√	√	√	√	√	√	√	√	94
Mr. Fahad Ali Al Ghanim	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	100
Mr. Ra'ed Khaled Al Kharafi	√	√	√	√	√	√	√	√	√	√	√	X	√	√	×	√	88
Mr. Noorur Rahman Abid	√	√	√	√	X	√	√	√	√	√	√	X	√	√	√	√	88
Mr. Ahmed Abdullah Al-Omar*	√	√	√	√	Membership Expired												100
Mr. Khaled Abdul-Aziz Al-Hassoun*	√	√	√	√	Membership Expired												100
Mr. Barrak Ali Alsheatan	√	√	√	√	√	√	√	√	√	√	X	√	√	√	√	√	94
Mr. Motlaq Mubarak Al-Sanei	Not board member				√	√	√	√	√	√	√	√	√	√	√	√	100
Mr. Waleed Abdullah Al Roudan *	Not board member				X	√	√	√	√	√	X	X	X	√	√	X	58

√ Attendance X Absence

P.S. the membership of Mr. Ahmed Abdullah Al-Omar and Mr. Khaled Abdul-Aziz Al-Hassoun has expired following the 53rd meeting in the 13th session 2014 – 2016. They were replaced by Mr. Motlaq Mubarak Al-Sanei and Mr. Waleed Abdullah Al Roudan.

6- Board Committees

During its current fourteenth session, KFH Board formed six subcommittees to assist in carrying out the duties and responsibilities of KFH. The number of committees is considered appropriate to oversee the diversified activities of KFH. All the members of the Board of Directors take part in these committees. Board Committees include the following:

6-1 Audit and Compliance Committee

Audit and Compliance Committee was formed to assist the Board in fulfilling its supervisory responsibilities on the bank's accounting operations, financial control systems, internal audit controls, compliance and risk management systems as well as the management of financial reports in cooperation with internal and external auditors to ensure compliance with regulatory requirements.

The Audit Committee comprises three board members including the committee chairman. At least two of the members must have knowledge of financial matters in order to perform their duties as members of the committee. Their membership in this Committee coincides with their Board membership.

In performing its duties and functions in 2017, the Committee held (5) meetings and passed (5) resolutions by circulation. The Committee holds its meetings whenever required or upon the Committee chairman or the other two members' request.

The Audit Committee's duties and responsibilities comprise supervision on financial control regulations and systems at KFH and the reporting process as follows:

- Provide recommendations concerning external auditors' appointment, dismissal, fees, qualifications and objectivity of their professional opinion.
- Discuss the results of the interim and final audit with the external auditors and the resulting observations along with any other issues external auditors wish to discuss.
- Set appropriate standards to ensure execution of external audit operations.

- Review and discuss appointment and dismissal of the Chief Internal Auditor, Executive Manager of Regulatory Compliance and Reporting and AML/CFT Executive Manager and make recommendations to the board in this respect.
- Assess the performance of the internal audit, regulatory compliance and anti-money laundering and make recommendations on the remunerations of the persons heading those departments.
- Ensure that external auditors issue a statement on the Bank's compliance with the governance rules and regulations issued by CBK as part of the report submitted to CBK.
- Review accounting documents, reports and information on a regular basis and review financial statements with the Executive Management and external auditor before forwarding the same to the chairman.
- Review accounting issues having significant impact on the financial statements.
- Supervise KFH internal audit rules and regulations and ensure sufficiency of human resources required for control functions.
- Review required allocations and ensure adequacy as per financial statements approved by the Executive Management.
- Carry out any other activities in line with KFH Articles of Association and applicable laws and as may be deemed suitable by the Board.

Audit committee is authorized to acquire any information from the Executive Management. Also, it is entitled to invite, through official channels, any executive or board member to attend its meetings. The committee shall monitor the adequacy of internal controls at KFH.

Names of Audit and Compliance Committee Members and the number of meetings held in 2017

Name	Meeting dates in 2017					Attendance %
	9th Jan.	9th April	6th Jul.	9th Oct	10th Dec	
Mr. Noorur Rahman Abid (Head of Committee)	√	√	√	√	√	100
Mr. Fahad Ali Al Ghanim	√	√	√	√	√	100
Mr. Ahmed Abdullah Al-Omar*	√	Membership expired				100
Mr. Waleed Abdullah Al Roudan *	Not board member	√	√	√	√	100

√ Attendance X Absence

P.S. the membership of Mr. Ahmed Abdullah Al-Omar expired after meeting (16) in 13th session and replaced by Mr. Waleed Abdullah Al Roudan.

6.2 Nomination and Remuneration Committee

The key role of the Nomination and Remuneration Committee is to assist the Board of Directors in meeting its obligations regarding the selection of qualified individuals for the Board and Executive Management membership and assess the performance of the Board and its committees. Also, the committee shall assists the Board in supervising short and long term remuneration and incentive plans. The committee shall recommend the board of directors' remunerations in accordance with Shari'a laws and the best international practices. The board of directors shall appoint the members of the said committee provided that they shall not be less than 3 members including head of committee. Committee membership duration shall be 3 years or the remaining period of the board membership duration.

The Committee shall hold its meetings whenever needed but not less than twice a year. In performing its duties and functions in 2017, the Committee held (8) meetings and issued (3) resolutions by circulation.

The key functions of the Nomination and Remuneration Committee include but not limited to the following:

- Recommend nomination of persons qualified to act as Board members based on Board approved policies and CBK issued standards and instructions in regard to the controls of membership nominations. Recommendations shall cover all candidates including those who are not recommended for membership by the committee based on sound objective justifications.
- Recommend appointment of the CEO and his deputies, Head of Financial Control and any other director reporting directly to the CEO except the Chief Risk Officer who shall be elected by the Risk Committee and the the Chief Internal Auditor and Head of Compliance who shall be elected by the Audit and Compliance Committee as well as

the Customer Complaints Manager.

- Annual review of the required skills for board membership, determine the skills to be enjoyed by the members of the Board and Board committees and present suggestions on the board structure that serves the best interest of the bank.
- Annual evaluation of the overall performance of the Board and the performance of individual members.
- Determine authorities and functions of each executive or leading positions at the Bank and set required job responsibilities and qualifications in cooperation with Human Resources and concerned departments.
- Present suggestions on Bank fixed and variable remuneration policy structure and raise the same to the Board for approval.
- Conduct periodic review for the remuneration policy or when recommended by the Board and present recommendations to the Board to amend/ update such policy.
- Conduct a periodic assessment of the adequacy and effectiveness of the remuneration policy to ensure the achievement of the declared objectives.
- Present necessary recommendation to the Board in regard to Board members' remuneration.
- Review financial remuneration plan structures related to share options for board's approval.
- Study remuneration recommendations presented by the Executive Management concerning remuneration, CEO remuneration and executive management remuneration.
- Cooperate with the Risk Committee to evaluate suggested incentives under the remuneration plan.
- Conduct independent annual review of the remuneration plan to evaluate the Bank's compliance with the financial remuneration practices.
- Provide all remuneration granted to the Bank representatives in subsidiaries.

Names of the Nomination and Remuneration Committee Members and number of meetings held in 2017

Name	Meetings dates during 2017								Attendance %
	9th Jan.	1st Feb.	5th Mar.	8th May.	24th Jul.	13th Sep.	12th Nov.	10th Dec.	
Mr. Abdul Aziz Yacoub Alnafisi Head of Committee	√	√	√	√	√	√	√	√	100
Mr. Noorur Rahman Abid	√	√	√	√	√	√	√	√	100
Mr. Barrak Ali Alsheatan	√	√	√	√	X	√	√	√	88
Mr. Motlaq Mubarak Al-Sanei	Not board member			√	√	√	√	X	80
Mr. Khaled Abdul-Aziz Al-Hassoun	√	√	√	Membership Expired					100

√ Attendance X Absence

The membership of Mr. Khaled Al-Hassoun has expired after meeting no. (23) Session No. (13) (2014 – 2016) and was replaced by

Mr. Motlaq Mubarak Al-Sanei starting from meeting No. 1 in session No. 14 (2017 – 2019) as mentioned in the general assembly meeting for the year 2016,

3-6 Risk Committee

The key role of the Risk Committee is to assist the Board of directors in meeting its obligations in terms of overall supervision on the current risk conditions, risk strategy and the bank's risk appetite as regards to credit, banking, real estate and investment activities as well as all related policies and procedures. The committee shall comprise minimum 3 members including the chairman. Committee membership period shall coincide with the KFH board membership term.

In performing its duties and functions in 2017, the Committee held (8) meetings.

The Committee performs several duties and responsibilities as follows:

- Review and evaluate the policies and frameworks of risk management and ensure the implementation thereof in a Shari'a compliant manner.
- Review the capability and effectiveness of Risk Department in terms of managing the risk management program with the institutions that the Bank deals with.
- Ensure adequacy of risk appetite adopted by the Bank and the Board's trend in this respect and ensure identification of key risks.
- Review the adequacy of Bank risk management practices on a quarterly basis at least.
- Review the standards of risk management and internal control to ensure proper management of material risks in Bank businesses and provide supervision over credit risk, capital market risk, liquidity risk, liability management, legal risk and all relevant risks.
- Review the standards and trends of risk based capital adequacy.
- Review the new regulatory instructions in capital markets, the amendments to the accounting standards and other developments.
- Review the risk department structure, duties and responsibilities and oversee risk management and annual assessment of the CRO.

Names of in the Risk Committee Members and the number of meetings held in 2017

Name	Meetings dates during 2017								Attendance %
	22nd Jan.	19th Feb.	16th Apr.	18th Jun.	17th Sep.	29th Oct.	27th Nov.	17th Dec.	
Mr. Khaled Salem Al Nisf (Head of Committee)	√	√	√	√	√	√	√	√	100
Mr. Raed Khaled Al Kharafi	√	√	√	√	√	√	√	√	100
Mr. Muad Saud Al Osaimi	√	√	√	√	√	√	√	√	100
Mr. Motlaq Mubarak Al-Sanei	Not board member		√	√	√	√	√	√	100
Mr. Ahmed Abdullah Al-Omar	√	√	Membership Expired						100

√ Attendance X Absence

The membership of Mr. Ahmed Abdullah Al-Omar has expired after meeting no. (21) Session No. (13) (2014 – 2016) and was replaced by Mr. Motlaq Mubarak Al-Sanei starting from meeting No. 1 in session No. 14 (2017 – 2019) as mentioned in the general assembly meeting for the year 2016,

6-4 Governance Committee

Governance Committee's main role is to assist the Board of Directors in performing its duties as regards to overseeing the implementation of sound governance, developing a set of governance policies and guidelines and monitoring the compliance with such guidelines, policies and governance manual, whether by the Board, the Board committees, or the Bank's Management.

The Board Governance Committee comprises three Board members including the Committee Chairman. Membership in this Committee coincides with Board membership.

The Committee holds its meetings whenever required provided that the number of meetings shall not be less than two meetings per year. In performing its duties and functions in 2017, the Committee held 3 meetings and issued (2) resolutions by circulation.

The Governance Committee duties include the following:

- Develop governance manual and framework and provide suggestions on revision and updating from time to time.
- Review Bank policies and practices to ensure their adequacy in terms of governance standards.
- Review and assess the efficiency of the professional code of ethics, code of conduct and other approved policies and guidelines in the Bank.
- Review key issues related to shareholders' relations and the Bank contributions to charity works.
- Review the corporate governance section in the annual report.
- Annual evaluation of performance in terms of the Governance Committee and its duties as well as the annual review of the Committee's authorities and functions.

Names of the Governance Committee Members and the number of meetings held in 2017

Name	Meeting dates in 2017			Attendance %
	30th May	8th Nov	14th Dec	
Mr. Ra'ed Khaled Al-Kharafi (Head of the Committee)	√	√	√	100
Mr. Hamad Abdul Mohsen Al Marzouq	√	√	√	100
Mr. Barrak Ali Alsheatan	√	√	√	100

√ Attendance X Absence

6-5 Executive Committee

The key role of the Executive Committee is to assist the Board of Directors in fulfilling its obligations in regard to investment and banking activities according to the authorities delegated by the Board to the Committee. The Board may assign to the Committee any other duties that may assist the Board in performing its duties and responsibilities. The Board shall appoint Committee members who shall not be less than five members. The Board also appoints the Committee Chairman from its members. The membership of the Committee shall be for three years or the period remaining from the Board term.

In performing its duties and functions in 2017, the Committee held (12) meetings and issued (6) resolutions by circulation.

The key duties of the Executive Committee include but not limited to the following:

- Supervise strategy implementation mechanism and the Bank action plan, monitor performance efficiency, review performance reports and present recommendation to the board in this respect.
- Review and approve financing transactions and investment offers presented by Executive Management as per the Delegation of Authorities (DOA) set by the Board.
- Approve or reject any suggestions related to finance, liquidity and / or market risks based on the financial authorities and limits approved by the Board in regard to single customer credit concentration limits.
- Review management strategy in regard to proposed provisions and management plan to collect bad debts (if any).
- Periodic review of the diversity and strength of the finance portfolio.
- Coordination with the Risk Committee to prepare periodic reports for updating risk limits and possible increase of risks.

Names of Executive Committee Members and Number of Meetings held in 2017

Name	Meeting dates in 2017												Attendance %
	1st Feb	15th Feb	12th Apr	26th Apr	11th May	24th May	5th Jun	21st Jun	16th Jul	27th Sep	25th Oct	8th Nov	
Mr. Hamad Abdul Mohsen Al Marzouq (Head of Committee)	√	√	√	√	√	√	√	√	√	√	X	√	92
Mr. Abdul Aziz Yaaqub Al Nafisi	√	√	√	√	√	√	√	√	√	√	√	√	100
Mr. Khaled Salem Al Nisf	√	√	√	√	√	√	√	√	√	√	√	√	100
Mr. Muad Saud Al Osaimi	√	√	√	√	√	√	√	√	√	√	√	√	100
Mr. Fahad Ali Al Ghanim	√	√	√	√	√	√	√	√	√	√	√	√	100
Mr. Motlaq Mubarak Al-Sanei*	Not board member		√	√	√	√	√	√	√	√	√	√	100
Mr. Khaled Abdul-Aziz Al-Hassoun*	√	√	Membership Expired										100

√ Attendance X Absence

*Note: the membership of Mr. Khaled Al-Hassoun has expired after meeting (45) in session 13 (2014 – 2016) and was replaced by Mr. Motlaq Mubarak Al-Sanei starting from meeting 1 in session 14 (2017 – 2019) as provided for in the general assembly meeting for the year 2016.

6-6 Investment Committee

The main objective of the investment committee is to assist the board in setting up the general principles of investment, supervise the investment activities of the bank and its subsidiaries as per the authorities assigned by the board to this committee, and verify compliance with investment objectives of the bank. In performing its duties in 2017, the committee held (6) meetings and issued (1) resolution by circulation.

The main functions of the investment committee include but not limited to the following:

- The committee shall assist the banks board to execute its supervisory responsibilities over the bank's investment assets including investment funds and portfolio. The committee shall raise its recommendations to the board and follow up investments as per approved policies and procedures.
- Review reports related to the bank investments current status and the prevailing conditions in local and international markets in addition to all information that would enable the committee to perform its responsibilities professionally and efficiently.
- Update the board on any material changes on the bank investments.
- Follow up the implementation of strategic policies and goals set by the board in regard to all investment activities.
- View all newly proposed investments and verify their conformity with the board plans and raise a recommendation to the board in this respect.
- Seek assistance of an outsource consultant to assist the committee in its missions.
- Present recommendations to the board in regard to any subject it may deem suitable.
- Acquire any information required in regard to the status of investment portfolio through CEO.
- Review the Executive Management recommendations regarding the decisions for merging current investments and raise the same to the board.
- The committee shall practice any responsibilities and duties assigned by the board.
- The committee shall raise to the board a recommendation to increase or decrease the capital of the companies in which the bank is a shareholder.
- Such functions shall be reviewed and updated when required taking into consideration any changes in the bank business governance framework authorities, strategies, regulations, policies or any other material factors. Amendments and updates to the Committee Charter must be approved by the board.

Names of Investment Committee Members and number of meetings held in 2017

Name	Meetings dates during 2017						Attendance %
	15th Feb.	15th Mar.	10th May	16th July	25th Sep	13th Dec.	
Mr. Fahad Ali Al Ghanim Head of Committee	√	√	√	√	√	√	100
Mr. Khaled Salem Al Nisf	√	√	√	√	√	√	100
Mr. Muad Saud Al Osaimi	√	√	√	√	√	√	100
Mr. Waleed Abdullah Al Roudan	Not board member		√	√	√	√	100
Mr. Khaled Abdul-Aziz Al-Hassoun*	√	√	Membership Expired				100

√ Attendance X Absence

Note: the membership of Mr. Khaled Al-Hassoun expired in Meeting No. (6) Session 13 (2014 – 2016) and was replaced by Mr. Waleed Abdullah Al Roudan starting from Meeting 1 in session 14 (2017 – 2019) as provided for the general assembly meeting for the year 2016.

Board of Directors Statement on the Internal Control Systems

Internal Control Systems

The Board is responsible for reviewing and approving the effectiveness of the Bank's internal control system, 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 material loss.

The Board, through its Committees, reviews regularly 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 bank's external auditors and reviews the report on Accounting and Other Records and Internal Control System (ICR) issued by the ICR auditor. The ICR auditor's opinion in this respect is included in the Annual Report.

The Board believes that the internal control systems as of 31 December 2017 are adequate to provide reasonable assurance regarding the achievement of the Bank's objectives.

External Auditor Report about Internal Control Systems

The Board of Directors
Kuwait Finance House K.S.C.P.
P.O. Box 24989, Safat 13110
Kuwait

Dear Sirs,

Report on Accounting and Other Records and Internal Control Systems

In accordance with our letter of engagement dated March 28, 2017, we have examined the accounting and other records and internal control systems of Kuwait Finance House K.S.C.P. (the Bank) and Financial Institutions Subsidiaries companies that was in existence during the year ended 31 December 2016.

We covered the following areas of the Bank:

1. Risk Management
2. Investment
3. Treasury
4. Wholesale Banking
5. Retail Banking
6. Financial Control
7. Operations
8. Human Resources & General Services
9. Information Technology
10. Regulatory Compliance
11. Strategy & Corporate Affairs
12. Internal Audit
13. Customer Complaints
14. Legal
15. Anti-Money Laundering
16. Shari'a Control & Advisory

In addition to the above, we have also examined the accounting and other records and internal control systems of the following financial subsidiaries of the Bank:

- Kuwait Finance House, Bahrain
- Kuwait Finance House (Malaysia) Berhad
- Kuvyet Turk Participation Bank
- KFH Capital Investment
- Aref Investment Company
- KFH Private Equity
- KFH Financial Services
- Saudi KFH
- E'AMAR

Our examination has been carried out as per the requirements of the Central Bank of Kuwait (CBK) circular dated (2 / IBS / 96 / 2003)) considering the amendments. Further, our examination considering the CBK regulations in the following aspects:

- Aspect IV of the CBK regulations concerning Corporate Governance Rules as Kuwaiti Banks related to Risk management and Internal Controls.
- Instructions issued on 9 Feb 2010 pertaining to maintain the confidentiality of information and data of the bank clients.
- Instructions issued on 23 July 2013 pertaining to AML & CFT as well as relevant instructions.
- Bank activities on Securities.

We would like to indicate that your responsibilities as board member of KFH Bank include the establishment of accounting system and records and adequate Internal Control System for your bank, taking into account that the cost of such system should be commensurate with the benefits expected from their implementation. Nothing that the purpose of this report is to give you reasonable assurance, on the extent to which the adopted procedures and system are adequate to safeguard the bank›s assets against the losses which may result from irresponsible acts and uses, as well as confirmations that: the risks are being monitored and accurately evaluated; the operations are processed according to the authorization procedures in place and are properly recorded; the procedures and systems enable you to exercise all types of business with care and caution.

However, it should be taken into account that the deficiency aspects in any of the accounting systems or Internal Control systems, may result in errors which can not be detected or traced, and that it is difficult to evaluate the adequacy of the systems for future period, because the management information and the control procedures may become insufficient due to change in circumstances or as a result of poor adherence to such procedures.

In our opinion, having regard to the nature and volumes of its operations during the year ended 31 December 2016, the accounting and other records and internal control systems, in the areas examined by us, were established and maintained in accordance with the requirements of the Manual of General Directives issued by the CBK with considering the amendments, further the CBK regulations in the ‹aspects mention above, with the exception of the matters set out in the report appendix. These exceptions do not have a material impact on the fairness of the financial statements.

Furthermore, the Bank has established a process of quarterly follow-up on reported exceptions to ensure that corrective actions are being taken to rectify the control weaknesses and gaps identified during the course of the Internal Controls Review.

State of Kuwait

28 June 2017

Nayef M. Al Bazie

License No. 91- A

RSM Albazie & Co.

Remuneration Report

Remuneration Policy

KFH's Remuneration Policy is in line with its strategies and objectives and the Kuwaiti Labor Law in the private sector, and incorporates all the requirements of the CBK Corporate Governance Instructions issued in June 2012. The employees' remuneration includes both fixed and variable components, which include their salary, short-term and long-term incentives. The policy is designed to attract, retain and competitively reward those individuals with experience, skill, values and behaviors in order to achieve the Bank's overall goals.

Rewarding employees is directly linked to the Bank's short and long term performance. It also aligns the components of the remuneration packages with the Bank's long-term risk appetite. The policy has mechanisms in place to control the total remuneration based on the financial performance of the Bank, and in the case of poor performance, implementing a redemption mechanism in order to safeguard the Bank's interests.

The Bank's Board of Directors, with the assistance of the Nominations and Remuneration Committee, approves and modifies the Bank's remuneration policy and its design, and periodically reviews the process of its implementation and effectiveness to ensure that it is operating as intended.

Remuneration Components

The various remuneration components are combined to ensure an appropriate and balanced remuneration package that reflects the employee's grade in the Bank and the job function as well as market practice. The employee remuneration components are:

1. Basic salary

2. Benefits and allowances

The salaries reflect the individuals' skills and experience and are reviewed annually in the context of annual performance assessment. The salary packages are periodically benchmarked against comparable roles in other banks and other financial institutions. They are increased, where justified, by role change, increase in responsibility or where justified by the latest available market data. Salaries may also be increased in line with local regulations.

The Bank has a formal performance management process for evaluating and measuring staff performance at all levels.

In the beginning of the year, the staff and their superiors plan and document the annual performance goals, required competencies and personal development plans for the staff. At the annual performance appraisal interview, the superiors of the staff and the reviewers evaluate and document performance against the documented goals. Decisions on adjustment of the employee's fixed salary and on performance-based incentives are made on the basis of annual performance review.

Other benefits like annual leave, medical leave and other leaves, medical insurance, annual ticket, and allowances are provided on the basis of individual employment contracts, local market practice and applicable laws.

Remuneration Disclosures as per the CBK Corporate Governance Instructions

As per the CBK's Corporate Governance Instructions, we have disclosed the remuneration paid to certain staff categories and the amounts paid to each category. The analyses include the fixed and variable parts of the remuneration package and methods of payment.

First: Board of Directors Remuneration

The financial remunerations paid to the Board of Directors are disclosed in Note (26) of the Annual Financial Statements.

Second: Remuneration of the Highest Paid Executives at KFH Kuwait

As per the CBK Corporate Governance Instructions, this section must include the total remuneration paid to the 5 highest paid senior executive officers, which includes their salary and short & long-term incentives in 2017. However, the group must also include the Chief Executive Officer (CEO), the Chief Risk Officer (CRO), the Chief Financial Officer (CFO) and the Head of Internal Audit if any of them are not part of the top 5.

Hence, this section includes the total remuneration in 2017 of the top 5 highest paid executives at KFH Kuwait as well as 2 mandatory positions which were not part of the top 5. The total for this group (top 5 + 2) amounted to KD 2,320,075 The remuneration package of each executive included fixed and variable pay components including salary (basic and benefits / allowances), short-term incentives including fixed and variable annual cash bonus, as well as long-term incentives and termination benefits.

Third: Remuneration by Specific Staff Categories

1. CEO and his deputies and/or other Senior Executives whose appointment is subject to the approval of the regulatory and supervisory authorities:

The total remuneration paid to this category amounted to KD 3,729,449 The remuneration package of each executive in this category included fixed and variable pay components including salary (basic and monetary / non-monetary benefits / allowances), short-term incentives including fixed and variable annual cash bonus, as well as long-term incentives and termination benefits.

2. Financial and Risk Control Staff:

The total remuneration paid to this category amounted to KD 3,787,385. The remuneration package of the staff in this category differed based on their grades as well as their individual employment contracts. The pay components included fixed and variable pay components including salary (basic and benefits / allowances), short-term incentives including fixed and variable annual cash bonus, as well as long-term incentives for eligible senior executives and termination benefits.

3. Material Risk Takers:

The total remuneration paid to this category amounted to KD 1,805,215 The category includes the top management and the Divisional Heads of the business functions with financial authorities and who delegate responsibilities to their respective divisional staff and are ultimately responsible and accountable for the risks taken by them. The total remuneration included fixed and variable pay components including salary (basic and benefits / allowances), short-term incentives including fixed and variable annual cash bonus, as well as long-term incentives and termination benefits.

Risk Management and Governance Requirements

KFH pays special care and attention to risk management and governance which is considered one of prudent management pillars within the banking business. Group Risk Management (“GRM”) has a clear and continued footprint in KFH Group where it plays a vital role in evaluating risk exposures on Group level. Risk management is a part of daily processes, decision-making, and strategy setting, thereby making the understanding and management of various risks the responsibility of every business segment.

Last year, “GRM” endures in adoption of strategic initiatives to support capital optimization and asset quality improvement. These initiatives are driven by group strategy and supported by Executive Management. Meanwhile, GRM has updated its monitoring and reporting framework across KFH Group especially for Capital Management, Market & Liquidity Risk Management and, Business Continuity Management.

In compliance with the governance standards and requirements, during 2017 the Governance Committee has reviewed and updated a set of charters for both the Board of Directors (“BoD”) and its Committees. KFH has initiated the implementation of CBK instructions related to “Shari’a Governance at Islamic Banks” which has been released by the end of 2016.

A key part of Group Risk Management’s (“GRM”) mission is to drive continuous improvements throughout the Group via the implementation of standardized frameworks and methodologies. Group Risk Management (“GRM”) regularly conducts Stress Tests and Internal Capital Adequacy Assessments (“ICAAP”) across KFH Group. The bank remains compliant with all regulatory requirements and internally developed Capital Adequacy Key Risk Indicators (KRIs).

One of the main initiatives realized during 2017, Group Risk Management (“GRM”) continued in the Group Capital Management Program, which involved internally identified initiatives to calibrate the Group’s Risk Weighted Assets. Special considerations has been given to Market Risk Weighted Assets that results in dramatic decrease through the year. Capital Adequacy Ratio (CAR) has stood at 17.76% for the year end ahead of regulatory requirements.

GRM took significant steps in upgrading its measurement, monitoring, and reporting systems, whereby bank-wide risk management is overseen on a comprehensive basis. Risk Exposures have been monitored, analysed and recommendations communicated to the Board Risk Committee (“BRC”) and Management on a quarterly basis. Adopting these recommendations across the Group maintained Group CAR and the Asset Quality in good shape.

GRM also updated the Risk Appetite Framework (RAF) and regularly monitored KRIs across the Group.

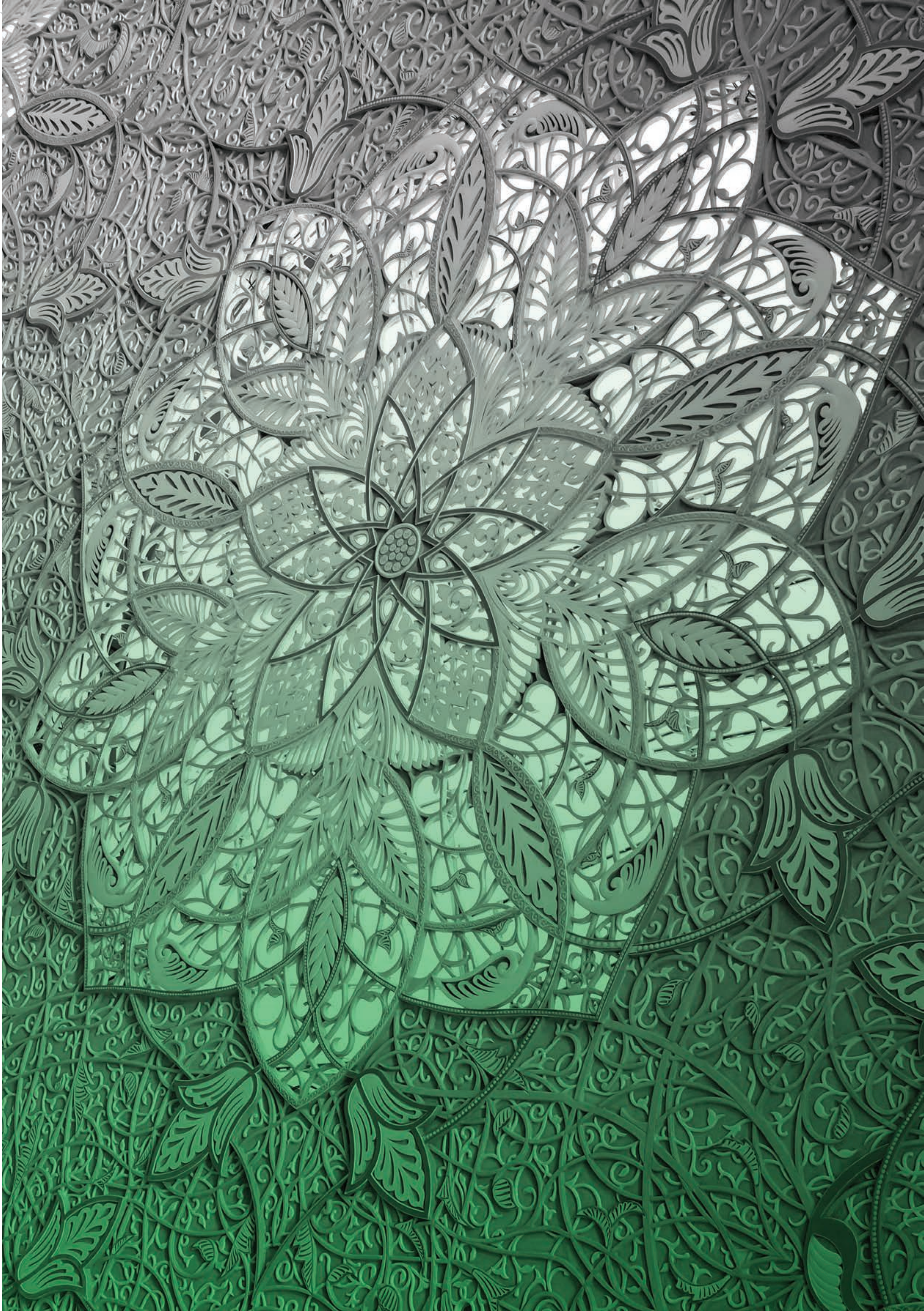
Driven by the Asset and Liabilities Committee (ALCO), Market Risk and Liquidity is regularly monitored and reported across the Group. Liquidity Coverage Ratio (“LCR”) and Net Stable Funding Ratio (“NSFR”) comply with required level and ensure the ability to fulfil depositors’ claims.

International Financial Reporting Standard 9 (“IFRS9”) has its roots in the Financial Crisis and its implementation will ensure more prudence in the earlier recognition of any dilution in asset quality. Thus, the (“IFRS9”) project reached final phase in collaboration with Finance Control, Risk Management and all business units across the Group.

The Operational Risk Management (“ORM”) function has successfully enhanced its capabilities by implementing an industry recognized Operational Risk Framework for managing and monitoring key risks within the Group.

Similarly, KFH has upgraded its Anti-Money Laundering Framework to ensure compliance with continuously developing Anti-Money Laundering/Combating the Financing of Terrorism (“AML/CFT”) regulations.

Technology has been driving change at a rapid rate in the financial services and banking industries and will continue to do so for the foreseeable future, bringing both innovation opportunities for growth, but also introducing new risks. As a result, KFH established a dedicated function to manage these risks in early 2016, the Group Technology Risk function continue to monitor and assess the banks technology related practices to ensure industry recognized controls and practices are implemented which provide underlying support to the Bank’s core businesses.



Capital Adequacy Disclosures

Capital Adequacy Disclosures

Qualitative and quantitative disclosures related to Capital Adequacy Standard under Basel III have been prepared in accordance with Central Bank of Kuwait instructions and regulations issued as per their circular 2/RB, RBA/336/2014 dated 24 June 2014 General disclosures related to Capital Adequacy Standard under Basel III rely 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: Group Structure

Kuwait Finance House (the "Bank") and its subsidiaries› (collectively the "Group") are engaged in providing Islamic banking, finance and investment services that comply with Islamic Shari'a. The subsidiaries are fully consolidated into the Bank's financial statements based on similar accounting policies and are accounted for using the equity method. Details about subsidiaries and associates are as follows:

1. Principal Operating Material Subsidiaries:-

1.1 **Kuwait Turkish Participation Bank:** is a 62% (2016: 62%) owned Islamic bank registered in Turkey since 1989. Its main activities include providing Islamic banking and finance services, investment of funds on a profit/loss sharing basis. Subsidiaries activities include financing real estate development.

1.2 **Kuwait Finance House B.S.C.:** is a 100% (2016: 100%) owned Islamic bank registered in the Kingdom of Bahrain since 2002. Its activities include providing products and banking services that comply with Islamic Shari'a, management of investment accounts on profit sharing basis and providing Islamic finance contracts including retail services. Subsidiaries› activities include services, & communications sector and the real estate investment activities.

1.3 **Kuwait Finance House (Malaysia) Berhard:** is a 100% (2016: 100%) owned Islamic Bank registered in Malaysia since 2006. Its main activities include providing Islamic finance products, investment in real estate, and corporate finance.

1.4 **Saudi Kuwaiti Finance House S.S.C. (Closed):** is a 100% (2016: 100%) owned subsidiary, registered in Kingdom of Saudi Arabia. The main activities of the company are to provide services as a principal or as an agent of underwriting, management, arrangement, advisory services and custody in relation to securities.

1.5 **Kuwait Finance House Capital Investment Company K.S.C. (Closed)*:** is a 99.9% (2016: 99.9%) owned Investment Company. Its activities comply with Islamic Shari'a that include investments, Islamic financing services, equity trading, private equity investments, real estate investments and asset management services.

1.6 **KFH Private Equity Ltd:** is a 100% (2016: 100%) owned Investment Company registered at the Cayman Islands. Its main activities comprise global private equity investments

1.7 **KFH Financial Services Ltd:** is a 100% (2016: 100%) owned subsidiary company, registered in Cayman Islands. Its main activity is in the real estate sector outside Kuwait.

1.8 **Kuwait Finance House Real Estate Company K.S.C (Closed)*:** is a 99.9% (2016: 99.9%) owned real estate Investment Company. It is engaged in owning, sale and purchase of real estate, development of the company's properties, development of properties and land on behalf of customers inside and outside Kuwait.

1.9 **Development Enterprises Holding Company K.S.C (Closed)*:** is a 99.9% (2016: 99.9%) owned subsidiary its main activities include owning long-term strategic assets through investment or financing in companies with industrial and commercial activities.

1.10 **Baitak Real Estate Investment Company S.S.C. :** is a 100% (2016: 100%) owned real estate Investment Company registered in the Kingdom of Saudi Arabia. Its main activities comprise investments and real estate development.

1.11 **International Turnkey Systems Company K.S.C. (Closed):** is a 97% (2016: 97%) owned subsidiary whose activities include marketing, developing of hardware and software and other activities that include providing specialized technical consultancies.

1.12 **Aref Investment Group K.S.C. (Closed):** is a 53% (2016: 53%) owned Investment Company and is engaged in a wide variety of activities that include real estate investments and Islamic financing activities which comply with Islamic Shari'a. Aref's subsidiaries activities include the energy sector, educational services, medical services, transportation, and information technology.

1.13 **Al Enma'a Real Estate Company K.S.C.P:** is a 56% (2016: 56%) owned subsidiary engaged in real estate activities including operating leases.

1.14 **Public Service Company K.S.C. (Closed):** is a 0% (2016: 80%) owned subsidiary engaged in management consultancy and services.

1.15 **Turkapital Holding B.S.C. (C):** is a 51% (2016: 51%) owned subsidiary registered in Bahrain engaged in real estate, auto leasing and insurance.

1.16 **Muthana Islamic Index Fund:** is a 30% (2016: 64%) owned subsidiary engaged in Islamic equity investment activity.

1.17 **Al Salam Hospital K.S.C. (Closed):** is a 76% (2016: 76%) owned subsidiary engaged in healthcare services.

1.18 **Muthana GCC Islamic Banks Fund:** is 91% (2016: 93%) owned subsidiary engaged in Islamic equity investment activity.

1.19 **E'amar:** is a 100% (2016: 100%) wholly owned subsidiary registered in Cayman Islands engaged in Islamic investments.

1.20 **Gulf International Automobile Trading Company K.S.C. (Closed)*:** is a 99.6% (2016: 99.6%) owned subsidiary engaged in trading, import and export of used cars.

*** Effective ownership percentage is 100% (2016:100%)**

2. The major associates of the group

2.1 **Ibdar Bank B.S.C** is a 40% (2016: 40%) owned bank registered in Bahrain. its main activities include providing Islamic banking and finance services and products, corporate finance, Treasury investments and asset management services.

2.2 **Sharjah Islamic Bank P.J.S.C. :** is a 20% (2016: 20%) owned bank registered in Sharjah – United Arab Emirates since 1975. its main activities include providing Islamic banking and finance services and products, corporate finance, Treasury investments and asset management services.

2.3 **ALAFCO – Aviation Lease and Finance Company K.S.C.P:** is a 46% (2016: 46%). Its main activities include the purchase and leasing of aircraft according to Islamic Shari'a principles.

Second: Composition of Regulatory Capital and its Balance Sheet Reconciliation

A. Capital Structure

The bank's regulatory capital is composed from:

1. Tier 1 (T1) capital, which is composed from:

- Common Equity Tier 1 (CET1) – comprises of shareholder's equity, retained earnings, reserves, and eligible portion of non-controlling interests.

- Additional Tier 1 (AT1) – related to eligible portion of non-controlling interests.

2. Tier 2 (T2) capital – comprises of eligible portion of non-controlling interests and eligible portion of general provisions (1.25% of credit risk-weighted assets).

As at 31 December 2017, Tier (1) "Core Capital" amounted KD 1,932,356 thousand, Tier (2) "Supplementary Capital" amounted KD 212,337 thousand.

KD 000's

Regulatory Capital Components	Total
CET1: Common Equity Tier 1 Capital (Before Regulatory Adjustments)	2,037,866
Regulatory Adjustments for CET1	180,367
Total Common Equity Tier 1 (CET1)	1,857,499
Additional Tier 1 Capital (AT1)	74,857
Total Tier 1 (T1=CET1+AT1)	1,932,356
Tier 2 Capital (T2)	212,337
Total Capital (TC=T1+T2)	2,144,693
Total Risk Weighted Assets	12,073,649
Capital Adequacy Ratios and Buffers	
Common Equity Tier 1 (as percentage of risk-weighted assets)	15.38%
Tier 1 (as percentage of risk-weighted assets)	16.00%
Total capital (as percentage of risk-weighted assets)	17.76%
National minima	
Common Equity Tier 1 minimum ratio	11.5%
Tier 1 minimum ratio	13.0%
Total capital minimum ratio	15.0%

B. Reconciliation of Regulatory Capital:

1. Common Disclosure Template:

The below table serves as a detailed breakdown of the bank's regulatory capital in a clear and consistent format thus enhancing the assessment of capital requirements for all risk exposures.

	Common Equity Tier 1 capital: instruments and reserves	Amount (Thousands)
1	Directly issued qualifying common share capital plus related stock surplus	1,296,902
2	Retained earnings	185,361
3	Accumulated other comprehensive income (and other reserves)	446,534
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)	0
5	Common share capital issued by subsidiaries and held by third parties (minority interest)	51,412
6	Net income	0
7	Proposed issue of bonus shares	57,657
	Common Equity Tier 1 capital before regulatory adjustments	**2,037,866**
	Common Equity Tier 1 capital: regulatory adjustments	
8	Prudential valuation adjustments	
9	Goodwill (net of related tax liability)	6,649
10	Other intangibles (net of related tax liability)	32,010
11	Cash dividends	96,645
12	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	
13	Cash-flow hedge reserve	
14	Shortfall of provisions to expected losses	
15	Taskeek gain on sale (as set out in para 72 of these guidelines)	
16	Gains and losses due to changes in own credit risk on fair valued liabilities	
17	Defined-benefit pension fund net assets (para 68)	
18	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	45,063
19	Reciprocal cross-holdings in common equity	
20	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)	
21	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)	
22	Mortgage servicing rights (amount above 10% threshold of bank's CET1 capital)	
23	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	
24	Amount exceeding the 15% threshold	
25	of which: significant investments in the common stock of financials	
26	of which: mortgage servicing rights	
27	of which: deferred tax assets arising from temporary differences	
28	National specific regulatory adjustments	

29	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	
30	Total regulatory adjustments to Common equity Tier 1	**180,367**
	Common Equity Tier 1 capital (CET1)	**1,857,499**
	Additional Tier 1 capital: instruments	
31	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	
32	of which: classified as equity under applicable accounting standards	
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)	74,857
36	of which: instruments issued by subsidiaries subject to phase-out	
	Additional Tier 1 capital before regulatory adjustments	**74,857**
	Additional Tier 1 capital: regulatory adjustments	
37	Investments in own Additional Tier 1 instruments	
38	Reciprocal cross-holdings in Additional Tier 1 instruments	
39	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)	
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	
41	National specific regulatory adjustments	
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	
43	Total regulatory adjustments to Additional Tier 1 capital	
	Additional Tier 1 capital (AT1)	74,857
	Tier 1 capital (T1 = CET1 + AT1)	**1,932,356**
	Tier 2 capital: instruments and provisions	
44	Directly issued qualifying Tier 2 instruments plus related stock surplus	
45	Directly issued capital instruments subject to phase-out from Tier 2	
46	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)	77,832
47	of which: instruments issued by subsidiaries subject to phase-out	
48	General provisions included in Tier 2 capital	134,505
	Tier 2 capital before regulatory adjustments	**212,337**
	Tier 2 capital: regulatory adjustments	
49	Investments in own Tier 2 instruments	
50	Reciprocal cross-holdings in Tier 2 instruments	
51	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)	
52	Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	
53	National specific regulatory adjustments	
54	Total regulatory adjustments to Tier 2 capital	

	Tier 2 capital (T2)	212,337
	Total capital (TC = T1 + T2)	**2,144,693**
	Total risk weighted assets (after applying 50% additional weighting)	**12,073,649**
	Capital ratios and buffers	
55	Common Equity Tier 1 (as a percentage of risk weighted assets)	15.38%
56	Tier 1 (as a percentage of risk weighted assets)	16.00%
57	Total capital (as a percentage of risk weighted assets)	17.76%
58	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)	4.5%
59	of which: capital conservation buffer requirement	2.5%
60	of which: bank specific countercyclical buffer requirement	
61	of which: D-SIB buffer requirement	2.0%
62	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	6.38%
	National minima	
63	National Common Equity Tier 1 minimum ratio	11.5%
64	National Tier 1 minimum ratio	13.0%
65	National total capital minimum ratio	15.0%
	Amounts below the thresholds for deduction (before risk weighting)	
66	Non-significant investments in the capital of other financials	
67	Significant investments in the common stock of financials	
68	Mortgage servicing rights (net of related tax liability)	
69	**Deferred tax assets arising from temporary differences (net of related tax liability)**	**24,564**
	Applicable caps on the inclusion of provisions in Tier 2	
70	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)	290,572
71	Cap on inclusion of provisions in Tier 2 under standardized approach	134,505
72	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	
73	Cap for inclusion of provisions in Tier 2 under internal ratings-based	

2. Reconciliation requirements:

The purpose of the full reconciliation of all regulatory capital elements to the balance sheet in the audited financial statements is to address any cases where calculated regulatory capital doesn't reconcile with published financial statements.

Step 1

KD 000's

Item	Balance sheet as in published financial statements	Under Regulatory scope of consolidation	Ref.
	31-Dec-17	31-Dec-17	
Assets			
Cash and balances with banks and financial institutions	1,262,456	1,262,456	
Short-term Murabaha	2,925,329	2,925,329	
Financing receivables	9,216,475	9,216,475	
of which General Provisions (netted above) capped for Tier 2 inclusion	134,505	134,505	A
Sukuk Receivables	1,428,655	1,428,655	
Trading properties	161,137	161,137	
Investments	304,293	304,293	
Investment in associates and joint ventures	463,797	463,797	
Investment properties	554,321	554,321	
Other Assets	464,558	464,558	
Intangible assets and goodwill	38,659	38,659	
of which goodwill	6,649	6,649	B
of which other intangibles	32,010	32,010	C
Property and equipment	214,001	214,001	
Assets classified as held for sale	324,300	324,300	
Total Assets	**17,357,981**	**17,357,981**	
Liabilities			
Due to banks and other financial institutions	2,239,923	2,239,923	
Sukuk Payable	518,078	518,078	
Depositors account	11,596,733	11,596,733	
Other liabilities	699,236	699,236	
Liabilities directly associated with assets classified and held for sale	187,889	187,889	
TOTAL Liabilities	**15,241,859**	**15,241,859**	
Equity Attributable to the shareholders of the bank			
Share Capital	576,569	576,569	D
Share premium	720,333	720,333	E
Proposed issue of bonus shares	57,657	57,657	S
Treasury shares	(45,063)	(45,063)	F
Reserves	466,101	466,101	
of which: statutory reserve	274,841	274,841	G
of which: voluntary reserve	274,841	274,841	H
of which: treasury share reserve	6,736	6,736	I
of which: stock option reserve	0	0	J
of which: fair value reserve	19,151	19,151	
of which: eligible as CET1 Capital	11,754	11,754	K

of which: eligible as depositors accounts	7,397	7,397	
of which: revaluation reserve	(163,822)	(163,822)	
of which: eligible as CET1 Capital	(100,548)	(100,548)	L
of which: eligible as depositors accounts	(63,274)	(63,274)	
of which: other reserves	(34,362)	(34,362)	
of which: eligible as CET1 Capital	(21,090)	(21,090)	M
of which: eligible as depositors accounts	(13,272)	(13,272)	
of which: retained earnings	185,361	185,361	N
of which: current year income	0	0	
of which: retained earnings from previous years	185,361	185,361	
Dividends (Declared but not incurred)	(96,645)	(96,645)	O
Total Equity Attributable to the shareholders of the bank	**1,872,242**	**1,872,242**	
Non-controlling interests	243,880	243,880	
of which limited recognition eligible as CET1 capital	51,412	51,412	P
of which limited recognition eligible as AT1 capital	74,857	74,857	Q
of which limited recognition eligible as Tier 2 capital	77,832	77,832	R
Total Equity	**2,116,122**	**2,116,122**	
Total Liabilities and Equity	**17,357,981**	**17,357,981**	

Step 2 of Reconciliation requirements

KD 000's

	Common Equity Tier 1 capital: instruments and reserves	Component of regulatory capital	Source based on reference letters of the balance sheet from step 2
1	Directly issued qualifying common share capital plus related stock surplus	1,296,902	D+E
2	Retained earnings	185,361	N
3	Accumulated other comprehensive income (and other reserves)	446,534	G+H+I+J+K+L+M
4	Common share capital issued by subsidiaries and held by third parties (minority interest)	51,412	P
5	Proposed issue of bonus shares	57,657	S
6	**Common Equity Tier 1 capital before regulatory adjustments**	**2,037,866**	
	Common Equity Tier 1 capital : regulatory adjustments		
7	Goodwill	(6,649)	B
8	Other intangible assets	(32,010)	C
9	Treasury shares	(45,063)	F
10	Cash dividends	(96,645)	O
11	Total regulatory adjustments to Common Equity Tier1	(180,367)	
12	**Common Equity Tier 1 capital (CET1)**	**1,857,499**	
	Additional Tier 1 capital : instruments		
13	Common share capital issued by subsidiaries and held by third parties (minority interest)	74,857	Q
14	**Total Tier 1 capital**	**1,932,356**	
	Tier 2 capital : instruments and provisions		
15	Common share capital issued by subsidiaries and held by third parties (minority interest)	77,832	R
16	General Provisions included in Tier 2 Capital	134,505	A
17	**Total Tier 2 capital**	**212,337**	
	Total capital	**2,144,693**	

Third: Risk weighted assets and Minimum Capital Requirement

a) Credit risk

KFH credit risk management follows a specific framework to ensure that:

- Clearly defined credit policies. These policies articulate the requirements for approval of new, renewed and amended credit facilities in terms of financial requirements and documentation. Also include Risk Appetite policy that defines the acceptable concentration limits for clients
- A system of credit authority matrix that ensures (1) authorities are commensurate with the experience, ability and personal character of individuals, (2) the Risk Management department reviews and challenges credit requests, (3) significant credit exposures are approved by management committees or the Board as per authority matrix
- A credit rating system for Corporate, SME, Financial Institutions, Real Estate, and High Net Worth financing is in place.
- A system of limits to ensure that the bank undertakes risks within the approved appetite and within regulatory requirements.
- A process to ensure credit policies are complied with regulatory requirements by making sure that the required documentation is in place and the required approvals are obtained

- Effective follow-up processes to mitigate arrears through early detection of deterioration in the financing portfolio and associated management actions to handle such credits

KFH's approach, when granting credit facilities, is based primarily on an assessment of the customers' capacity to pay, with supplementary support from credit risk mitigation. Depending on a customer's standing and the type of product, facilities may be provided unsecured. Mitigation of credit risk is a key aspect of effective risk management and takes many forms as approved by CBK. The bank's policy for collaterals defines the list of accepted collaterals and the protection of credits. The collaterals used by the bank include financial collaterals (cash and securities) and non-financial (real estate, bank guarantees, and third party agreements).

KFH has reviewed and enhanced its corporate financing credit process. The main enhancements to the process includes:

(a) Streamlining of the process itself to ensure efficient and effective decision making process and clear assignment of responsibilities,

(b) Enhancing and realigning the credit authority matrix to ensure proper and clear escalation of decisions and the involvement of all relevant parties from the business, risk, and the Board,

(c) Activate the Credit Committee with the adequate level of membership and authority level to review and approve or recommend credit requests.

KFH has adopted the standardized approach to measuring the capital required for credit risk under Pillar 1. However, credit risk arising from name concentration, sector concentration, and those remaining from credit mitigation techniques are captured under Pillar 2 as they are not covered under Pillar 1.

1. Credit Risk Capital Requirements:

KD 000's

Ser.	Credit risks Exposure	Total Exposures	Net Exposures	Risk weighted Assets	Required Capital
1	Cash item	297,695	297,695	-	-
2	Claims on sovereigns	3,972,897	3,972,897	593,844	89,077
3	Claims on public sector entities	45,259	45,259	10,327	1,549
4	Claims on MDBs	170,711	170,711	27,149	4,072
5	Claims on banks	1,600,847	1,600,847	445,308	66,796
6	Claims on corporates	3,826,041	3,280,793	2,727,847	409,177
7	Regulatory retail exposure	3,740,011	3,573,274	2,721,777	408,267
8	Qualifying residential housing financing facilities	600,226	384,086	106,896	16,034
9	Past due exposures	361,526	307,309	149,897	22,485
10	Inventory and commodities	37,617	37,617	54,967	8,245
11	Real estate investments	714,519	714,519	1,136,339	170,451
12	Investment and financing with customers	1,675,269	991,455	1,151,684	172,753
13	Other exposures	1,620,470	1,620,468	1,478,263	221,739
	Total	**18,663,088**	**16,996,930**	**10,604,298**	**1,590,645**

2. Total Credit Risk exposures classified as "Self-Financed or Financed from Investment Accounts:

KD 000's

Ser.	Credit risk exposures	Total	Self-Financed	Finance form Investment Accounts
1	Cash item	297,695	182,714	114,981
2	Claims on sovereigns	3,972,897	2,438,410	1,534,487
3	Claims on public sector entities	45,259	27,778	17,481
4	Claims on MDBs	170,711	104,776	65,935
5	Claims on banks	1,600,847	1,056,958	543,889
6	Claims on corporates	3,826,041	2,621,008	1,205,033
7	Regulatory retail exposure	3,740,011	2,367,027	1,372,984
8	Qualifying residential housing financing facilities	600,226	368,395	231,831
9	Past due exposures	361,526	222,951	138,575
10	Inventory and commodities	37,617	23,088	14,529
11	Real estate investments	714,519	438,544	275,975
12	Investment and financing with customers	1,675,269	1,029,245	646,024
13	Other exposures	1,620,470	995,169	625,301
	Total	**18,663,088**	**11,876,063**	**6,787,025**

3. Net Credit Exposures classified as Rated or Unrated (External Ratings)

KD 000's

Ser.	Credit risk exposures	Net credit exposures	Rated exposures	Unrated exposures
1	Cash item	297,695	-	297,695
2	Claims on sovereigns	3,972,897	3,680,108	292,789
3	Claims on public sector entities	45,259	-	45,259
4	Claims on MDBs	170,711	170,711	-
5	Claims on banks	1,600,847	1,293,885	306,962
6	Claims on corporates	3,280,793	33,583	3,247,210
7	Regulatory retail exposure	3,573,274	-	3,573,274
8	Qualifying residential housing financing facilities	384,086	-	384,086
9	Past due exposures	307,309	-	307,309
10	Inventory and commodities	37,617	-	37,617
11	Real estate investments	714,519	-	714,519
12	Investment and financing with customers	991,455	1,658	989,797
13	Other exposures	1,620,468	-	1,620,468
	Total	**16,996,930**	**5,179,945**	**11,816,985**

4. Average Credit Risk exposures, average Self-Financed Assets and average Assets Financed from Investment Accounts on quarterly basis:

KD 000's

Ser.	Credit risk exposures	Average Credit Risk Exposure	Average Self-financed	Average Finance form Investment Accounts
1	Cash item	270,112	164,387	105,725
2	Claims on sovereigns	3,785,758	2,303,803	1,481,955
3	Claims on public sector entities	47,133	28,674	18,459
4	Claims on MDBs	79,097	48,338	30,759
5	Claims on banks	1,732,516	1,125,357	607,159
6	Claims on corporates	3,827,354	2,603,042	1,224,312
7	Regulatory retail exposure	3,619,310	2,275,320	1,343,990
8	Qualifying residential housing financing facilities	598,379	364,105	234,274
9	Past due exposures	374,716	229,531	145,185
10	Inventory and commodities	40,376	24,561	15,815
11	Real estate investments	745,226	453,385	291,841
12	Investment and financing with customers	1,634,144	995,284	638,860
13	Other exposures	1,651,758	1,005,425	646,333
	Total	**18,405,879**	**11,621,212**	**6,784,667**

5. Excess Risk Concentrations

Concentration risks arise when several counterparties are engaged in similar activities in the same geographical area or have similar economic features that would cause their ability to meet their contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate relative sensitivity of the Group's performance to developments affecting a particular industry sector or geographical location.

In order to avoid excessive risk concentrations, the Bank's policies and procedures include specific guidelines to focus on maintaining diversified financial portfolios, thus establishing control over certain credit risk concentrations. Credit mitigation techniques are used by the Bank to manage risk concentrations both at the relationship and industry levels.

a. Geographical Distributions for Credit Risk Exposure

KD 000's

Ser.	Credit Risk exposures	MENA	North America	Europe	Asia	Others	Total
1	Cash item	116,111	-	172,891	8,693	-	297,695
2	Claims on sovereigns	2,891,972	-	826,375	218,653	35,897	3,972,897
3	Claims on public sector entities	32,368	-	-	12,891	-	45,259
4	Claims on MDBs	163,141	-	4,530	3,040	-	170,711
5	Claims on banks	919,384	50,567	468,052	87,625	75,219	1,600,847
6	Claims on corporates	1,526,831	899	2,104,684	49,092	144,535	3,826,041
7	Regulatory retail exposure	2,807,532	12	762,444	168,364	1,659	3,740,011
8	Qualifying residential housing financing facilities	94,436	-	465,623	40,167	-	600,226
9	Past due exposures	308,756	181	20,370	3,378	28,841	361,526
10	Inventory and commodities	37,613	-	-	4	-	37,617
11	Real estate investments	627,796	27,747	12,875	46,101	-	714,519
12	Investment and financing with customers	1,440,077	10,835	-	219,765	4,592	1,675,269
13	Other exposures	987,295	48,203	131,869	121,320	331,783	1,620,470
	Total	**11,953,312**	**138,444**	**4,969,713**	**979,093**	**622,526**	**18,663,088**

b. Maturities of total Credit Risk exposures

KD 000's

Ser.	Credit Risk exposures	Up to 3 months	3 to 12 months	Over 1 year	Total
1	Cash item	293,936	-	3,759	297,695
2	Claims on sovereigns	1,565,966	1,389,417	1,017,514	3,972,897
3	Claims on public sector entities	-	18,685	26,574	45,259
4	Claims on MDBs	4,530	3,040	163,141	170,711
5	Claims on banks	1,204,315	271,347	125,185	1,600,847
6	Claims on corporates	892,693	1,185,903	1,747,445	3,826,041
7	Regulatory retail exposure	237,917	320,783	3,181,311	3,740,011
8	Qualifying residential housing financing facilities	3,538	20,398	576,290	600,226
9	Past due exposures	109,019	94,699	157,808	361,526
10	Inventory and commodities	3,988	4,528	29,101	37,617
11	Real estate investments	-	436	714,083	714,519
12	Investment and financing with customers	479,248	805,082	390,939	1,675,269
13	Other exposures	99,613	149,421	1,371,436	1,620,470
	Total	**4,894,763**	**4,263,739**	**9,504,586**	**18,663,088**

c. Main sectors of total Credit Risk exposures

KD 000's

Ser.	Credit Risk exposures	Manufacturing & Trade	Banks and financial institutions	Construction & real estate	Government	Others	Total
1	Cash item	-	180,455	93	-	117,147	297,695
2	Claims on sovereigns	-	1,021,052	-	2,740,900	210,945	3,972,897
3	Claims on public sector entities	-	12,891	-	-	32,368	45,259
4	Claims on MDBs	-	7,570	-	-	163,141	170,711
5	Claims on banks	4,232	1,530,324	8,758	-	57,533	1,600,847
6	Claims on corporates	1,261,442	437,475	972,954	-	1,154,170	3,826,041
7	Regulatory retail exposure	338,072	3,726	156,073	-	3,242,140	3,740,011
8	Qualifying residential housing financing facilities	165	-	94,387	-	505,674	600,226
9	Past due exposures	67,610	47,339	144,992	-	101,585	361,526
10	Inventory and commodities	83	-	3,363	-	34,171	37,617
11	Real estate investments	-	-	705,790	-	8,729	714,519
12	Investment and financing with customers	87,772	48,853	510,338	-	1,028,306	1,675,269
13	Other exposures	31,468	181,942	317,004	-	1,090,056	1,620,470
	Total	**1,790,844**	**3,471,627**	**2,913,752**	**2,740,900**	**7,745,965**	**18,663,088**

6. Past due and impairment provisions

Credit facilities are classified as "past-due" if the profit or pricipal instalment is past due from one day to 90 days.

A credit facility is considered as "past-due and impaired" if the profit or a principal instalment is past due for more than 90 days.

"Past due" and "Past-due and impaired" facilities are classified into the following four categories which are then used to guide the provisioning process:

Category	Criteria
Watchlist	Irregular for a period up to 90 days
Substandard	Irregular for a period between 91 and 180 days
Doubtful	Irregular for a period between 181 days and 365 days
Bad	Irregular for a period exceeding 365 days

The Group may also classify a credit facility as impaired based on management's judgment of a customer's financial and/or non-financial circumstances.

As at 31 December 2017, non-performing cash finance facilities before impairment (net of deferred profit and suspended profit) amounted to KD 276,224 thousand. A specific provision of KD 166,713 thousand has been made, as detailed below:

a. Exposures based on standard portfolios

KD 000's

Ser.	Description of credit risk exposures	Impaired	Specific Provision	Net financing facilities	Specific Provision Write-off	Past due
1	Claims on corporate	118,649	71,389	47,260	165,915	209,385
2	Regulatory retail exposure	46,438	24,221	22,217	2,296	157,779
3	Qualifying residential housing financing Facilities	2,832	454	2,378	0	29,137
4	Investment and financing with customers	108,305	70,649	37,656	0	105,468
	Total	**276,224**	**166,713**	**109,511**	**168,211**	**501,769**

b. Exposures based on geographical

KD 000's

Ser.	Description of credit risk exposures	Impaired	Specific Provision	Net financing facilities	Specific Provision Write-off	Past due
1	Middle East & North Africa	188,699	115,302	73,397	127,642	346,282
2	North America	408	227	181	-	-
3	Europe	64,670	44,300	20,370	39,954	94,115
4	Asia	5,988	2,610	3,378	615	60,979
5	others	16,459	4,274	12,185	-	393
	Total	**276,224**	**166,713**	**109,511**	**168,211**	**501,769**

c. Exposures based on Industrial

KD 000's

Ser.	Description of credit risk exposures	Impaired	Specific Provision	Net financing facilities	Specific Provision Write-off	Past due
1	Manufacturing and Trade	47,891	24,734	23,157	165,915	59,340
2	Banks and financial institutions	10,620	10,363	257	-	28
3	Constructions & real estate	123,350	85,924	37,426	-	83,121
4	Others	94,363	45,692	48,671	2,296	359,280
	Total	**276,224**	**166,713**	**109,511**	**168,211**	**501,769**

d. General Provision Allocation

KD 000's

Ser.	Description of credit risk exposures	2017
1	Claims on banks	12,469
2	Claims on corporates	200,603
3	Regulatory retail exposures	46,288
4	Investment and financing with customers	18,335
	Total	**277,695**

7. Applicable Risk Mitigation Methods

KFH ensures the diversification of exposures according to the standard portfolios, business sectors and geographical distributions borders. In addition to the continuous evaluation of risk mitigation methods against finance obligations and credit limits of the customer as per the analytical study of the customer's financial position.

Eligible collaterals and guarantees are calculated as per the CBK's instructions. Netting is applied for exchange of deposits with banks and financial institutions. Standard supervisory haircuts are applied on the eligible collaterals according to the CBK's regulations.

The Bank compliance with the credit concentration limits per customer and maintaining adequate ratios of liquid assets provides several methods to measure the quality and effectiveness of risk mitigation methods used to mitigate capital requirements.

Eligible Collaterals and Banking Guarantees given against Credit Risk Exposure

KD 000's

Ser.	Credit Risk Exposures	Gross credit exposures	Eligible Collaterals
1	Cash item	297,695	-
2	Claims on sovereigns	3,972,897	-
3	Claims on public sector entities	45,259	-
4	Claims on MDBs	170,711	-
5	Claims on banks	1,600,847	-
6	Claims on corporates	3,826,041	545,248
7	Regulatory retail exposure	3,740,011	166,738
8	Qualifying residential housing financing facilities	600,226	216,140
9	Past due exposures	361,526	54,217
10	Inventory and commodities	37,617	-
11	Real estate investments	714,519	-
12	Investment and financing with customers	1,675,269	683,815
13	Other exposures	1,620,470	-
	Total	**18,663,088**	**1,666,158**

b. Market risk

Market Risk Weighted Exposure during the financial year 2017 amounted KD 276,669 thousand, based on the standardized approach. The minimum required capital for market risk exposures amounts to KD 41,500 thousand.

One of the methods used to mitigate exchange rate risks for which the Islamic bank is exposed to, include netting of exchange of deposits transactions with banks and financial institutions.

c. Operational risk

Operational risk weighted exposures calculated during the year 2017 amounted to KD 1,192,681 thousand as per the Basic Indicator Approach. The amount calculated for operational risk weighted exposures is adequate to cover any projected risks to maintain a reasonable profit ratio for shareholders and investment account owners. The minimum required capital for operational risk exposures amounts to KD 178,902 thousand.

Fourth: Risk Management:

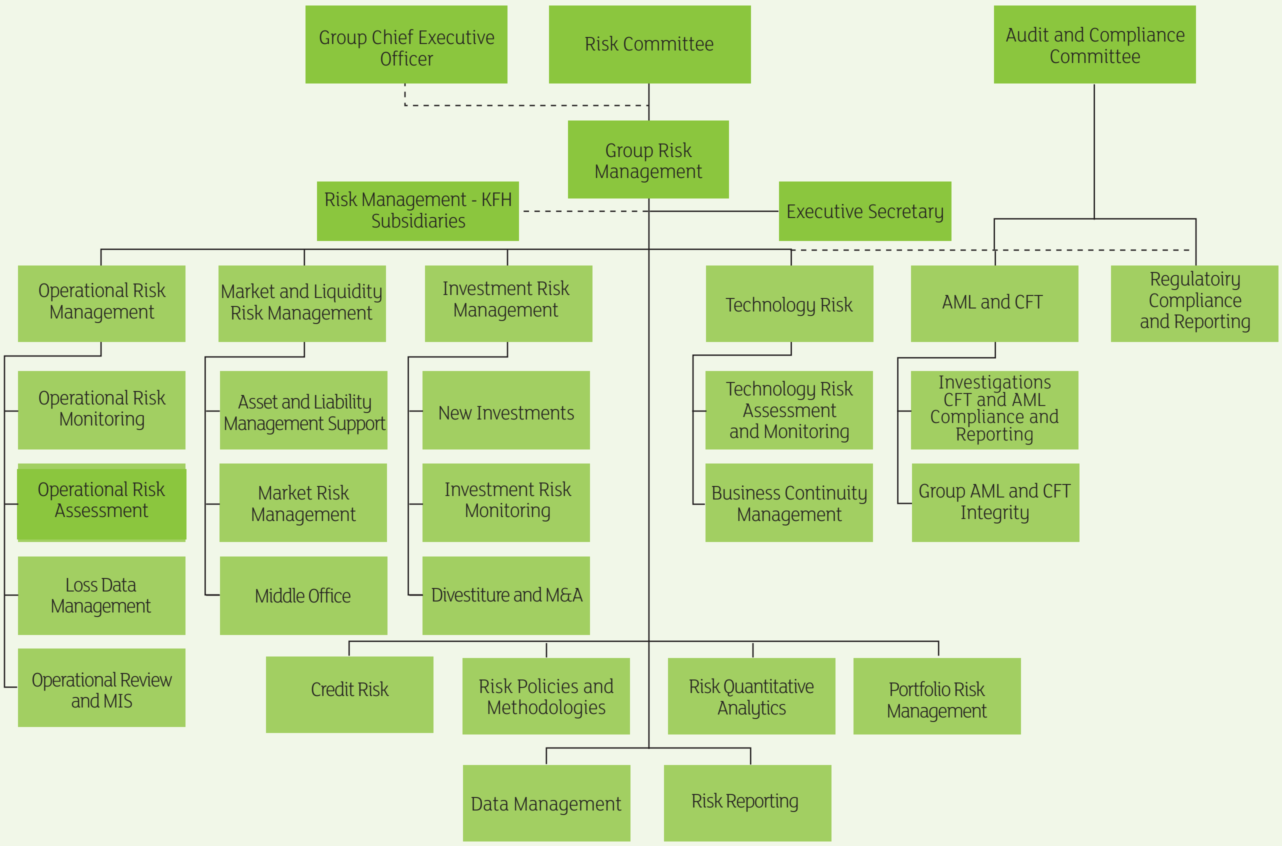
Risk management is an integral part of the decision-making processes for the Group. It is implemented through a governance process that emphasizes independent risk assessment, control and monitoring, overseen directly by the Board and senior management. KFH continues to upgrade its risk management capabilities in the light of developments in the business, banking and stock market regulations and risk management best practices. KFH operates a “three lines of defense” system for managing risk:

- The first line of defense recognizes that risks are raised by the business units and within their business. In KFH all employees (credit officers, dealers, operations, etc.) are required to ensure the effective management of risks within their organizational responsibilities.
- The second line of defense comprises the Financial Control Department and the Risk Management Department, which are responsible for ensuring that the risks are managed in accordance within the stated risk appetite.
- The third line of defense is the independent assurance provided by the Internal Audit function. Its role is defined and overseen by the Audit & Compliance Committee. The findings from the Internal Audit audits are reported to all relevant management and governance bodies. The Internal Audit function provides reasonable assurance that the overall system of control effectiveness is working as required within the risk management framework.

Risk Governance Structure at the Group Level

The Board of Directors is ultimately responsible for oversight of risk management and control in KFH. The Board sets the risk appetite for the Group. The Board delegates part of this responsibility to the Board Risk Committee (“BRC”) and the Board Audit & Compliance Committee (BACC). On the executive level, risk is managed by the executive management team, reporting to the BRC. KFH has an independent CRO who has the power of direct accessing to the BRC. KFH also has an independent Chief Internal Auditor who reports to the BACC. Risks are managed on the Group level through committees that include the CRO such as the Credit Committee and ALCO.

Eligible Collaterals and Banking Guarantees given against Credit Risk Exposure



The risk management in KFH is organized on functional lines. Risk management executives have explicit responsibility for Credit Risk and Market and Liquidity Risk, Investment Risk, Operational Risk, Portfolio Risk and Technology Risk. Regulatory Compliance and the Anti-Money Laundering ("AML") unit report directly to the Audit and Compliance Committee.

Risk Management is responsible for developing and implementing the processes of identifying, assessing, controlling, monitoring and reporting risks. Risk Management operates independently from the business units and provides a rigorous review and challenge for all investment and financing proposals as well as strategic initiatives such new products and markets. It also promotes better balance sheet management through capital optimization and works closely with the Treasury Department to mitigate the funding and liquidity related risks at all currencies in which the Group operates.

Culture of Risk Management, Training and Awareness-Raising

KFH strives hard to promote awareness of and strengthen the culture of risk management across the Group. With the strong support of the Board, KFH is upgrading its risk management policies and procedures and clarifying roles and responsibilities for managing risk. The aim is to ensure that risk is considered in all key financing, investment and funding decisions as well as in all key operations to protect the Bank from future loss and strengthen the value of the commitments to shareholders and depositors. Risk Management Department actively organizes workshops and awareness sessions across the Group to improve staff understanding of the risks inherent in their activities and the steps required to mitigate such risks.

Types of Risks

Kuwait Finance House and subsidiaries are exposed to various types. The main types of risks are credit, market, liquidity, operational, reputational and strategic risks.

Credit risk

KFH is exposed to credit risk which is the non-payment of funds issued by the Bank for the purpose of financing via many products (Tawaruq, Murabaha, Istisna', Ijarah and/or any other Shari'a compliance financing products). Credit risk arises from the customer's inability or non- willingness to pay or meet his/her obligations towards the bank. Credit risk may arise from various factors such as the nature of customer activity, changes in market trends or failure in following the procedures/policies of granting finance to customer. Default may be completely or partially. Furthermore, default may result from non-cash financing products such as letter of credit when the customer is in default of paying the same to the beneficiary entity and the Bank is committed to pay on his/her behalf or letter of guarantee when the customer default to deliver the works in the contracts for the contract owner.

The risk can materialize in large exposures to individuals or groups or in concentrations of financing in any particular sector which is subject to financial stress.

Credit Risk Governance

Credit Risk Governance aims at establishing and maintaining a performing financing portfolio that minimizes the incidence of customer default. The process of risk management begins with the relationship manager who is responsible for developing an understanding of the customers financing needs and financial position with a view to ensuring that the customer is not exposed to excessive leverage in his financing activities. In KFH, credit decisions are taken, based on an assessment of the customer's ability to service debt. Precaution such as collateral is taken as security to mitigate loss in the event of a default by the customer.

With the exception of retail financing, applications for new or renewed financing are reviewed independently in the business before being submitted to the Risk Management Department for assessment and recommendation. The Credit Committee reviews all applications and approves or denies those that fall within its delegated authority. The CRO is a non-voting member in the Credit Committee and provides an independent recommendation. The CRO has the authority to escalate a proposal to the Board if he disagrees with the decision of the Credit Committee.

The Board takes the decisions regarding all proposals that are not included within the Credit Committee's delegated authorities.

In addition, Special Purpose Committee was established which is held once monthly, reviews the portfolio of the wholesale banking customers and analyses the performance of such portfolio. The Committee reviews also the customers in default, their collateral coverage ratios, exceptions granted, limits expiry etc.

Market risk

Market risk is the risk that the value of an asset or liability will fluctuate due to changes in market prices and may arise from commodities, currencies, instruments, stocks and real estate. In KFH, market risk is being managed by using the robust risk management techniques as to identify, measure and control those risks in order protect the Banks' shareholders equity. KFH's activities are conducted in accordance with Islamic Shari'a principles. Through those activities, KFH is exposed to rate of return risk, which is measured and managed through stress scenarios over a given period by measuring the Bank's sensitivity to the fluctuations of these rates and how to manage those risks within the acceptable levels as per the Bank's risk appetite.

Market Risk Governance Framework

Treasury Department manages foreign exchange risk and commodity risk arising from their activities in KFH. Treasury also manages sukuk exposure risk. Equity price risk is managed through KFH Capital, the KFH's investment arm. The quantum of the exposures is measured and monitored by Risk Management Department and governed by ALCO. The activities of ALCO are overseen by the BRC. Real estate price risk arising from collateral pledged for financing facilities is managed by active monitoring of collateral values and topping up the collateral where the coverage of the debt is no longer acceptable at KFH.

Liquidity Risk

Liquidity risk is the risk arising from the inability of the Bank to meet its obligations when due as a result of unavailability of funds at an economically viable price. Liquidity risk may arise from unexpected withdrawals of deposits or an inability to sell assets in the market due to absence of buyers.

Liquidity Risk Governance Framework

Liquidity risk management in KFH is governed by the Liquidity Risk Management Framework. This sets specific responsibilities for Treasury Department, Risk Management Department and Financial Control Department to measure, monitor and assess the Bank's funding requirements in the short and medium term under both normal operating and stressed conditions which ensure the availability of sufficient liquidity to meet its commitments (both expected and unexpected). Furthermore, the bank is complying with all the Basel III regulatory requirements initiated by the CBK.

The Bank has a contingency funding plan to bring in to operation where there is emerging evidences (based on triggers established in the Liquidity Risk Management Framework) of a future liquidity shortfall.

The Liquidity Risk Management Framework is the responsibility of the ALCO, which is in turn overseen by the BRC.

Operational risks

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. It also includes losses resulting from failure to comply with Shari'a requirements. Operational risk includes therefore, the risks of theft or fraud, legal risks from failure of contracts, losses arising from damage to physical assets, failures in regulatory compliance leading to fines or intensive scrutiny, failure of IT systems or suspending of service through external attacks on the Bank's operating and delivery processes.

Operational Risk Governance Framework

Since operational risk arise from a multitude of processes, the primary focus of operational risk management is in developing awareness of Internal Control weaknesses, strengthening the internal controls and installing additional risk mitigation where required.

The Operational Risk Framework comprises a process for assessing risk based on likelihood of occurrence and severity of the impact if it does occur. The lessons learned from previous operational risk events also provide opportunities to strengthen controls. The Head of Operational Risk works with the business through a Group of operational risk coordinators to improve understanding of Internal Control weaknesses and take preventative steps to mitigate the risk. The process is governed by the Risk Committee which is overseen by the Board.

Reputation Risk

The Bank defines reputation risk as risks arising from the negative perception by customers or other parties, such as shareholders, investors, employees or regulators that could adversely affect the Bank's ability to maintain current relationships or establish new relationships. In addition, given the Islamic nature of the Bank's activities, it is also exposed to the risk of reputation arising from non-adherence to Shari'a, which may lead to loss of customers.

Reputation Risk arises from a failure on the part of the Bank to perform as expected by its relevant stakeholders. As such this risk is mitigated through monitoring and managing the primary operational processes of the bank.

Strategic risks

The Bank defines strategic risks as risks arising from changes in market conditions and the results of decisions of business units and strategies of competitors or inappropriate responses to market developments, which may lead to losing out on profitable investment opportunities. In addition, strategic risks also arise from failure to properly implement the strategic plan or from incorrect execution of the plan's objectives.

KFH's strategic plan was put in place after intensive cooperation from the Board of Directors and senior management and is managed pro-actively. Any deviations from the plan are raised with senior management in order to take the necessary actions to achieve the stated objectives.

Fifth: Investment Accounts Related Information

KFH provides a variety of investment saving accounts in order to encourage the customers to save and plan for their future along with benefiting from the profits of their saved amounts. Therefore, KFH offers such accounts to various age groups with various features and advantages where accounts can be opened in Kuwaiti Dinars as well as foreign currencies. Such accounts include: (Investment Saving Account in Kuwaiti Dinars and foreign currencies, Al-Rabeh Account, Baiti Account and Wakala based Corporates Call Account).

All investment saving accounts can be opened for both individuals (either adults or minors) and corporates according to the special conditions and provisions of such types of accounts. As for the call accounts, they are designed only for corporates and legal entities (committees, associations, etc.) a Wakala call account, which is an investment saving account based on ""Wakala "Shari'a principle.

All investment saving accounts are invested according to the Shari'a principles of "Mudarabah" and "Wakala" as per the conditions of the investment contract and profit-sharing ratios.

Investment Deposits

KFH provides many types of investment deposits for customers so as to avail large number of investment tools that help customer to invest and achieve safely and securely profits. KFH offers numerous types of investment deposits with different advantages and features in terms of investment tenure, profits ratios and distribution as well as currency. Such deposits include: Continues Deposit, Al-Dimah, Al-Nuwair, Al-Sedra, Al-Kawthar, Alkhumasiya, Investment Deposit in Foreign Currencies and Long Term Investment Plans.

KFH provides Long Term Investment Plans, covered by various types of insurance coverage and various specifications in Kuwaiti Dinars. These accounts include the savings plan for higher education “Jameati”, the savings plan for the purposes of retirement “Thimar”, savings plan for the marriage “Rafaa”, savings plan for special projects “INJAZ” and savings plan for special medical care “Shifaa”

Such deposits can be opened for individuals, corporates and legal entities (associations - unions - institutions - etc.), provided that the legal age for the customer is 21 years or above, and it is permissible for the Shari’a guardian, by virtue of a court judgment, to open a deposit on behalf of minor.

The importance of investment deposits arises from providing greater stability to the banks operations. Hence, KFH can invest such investment deposits in various productive projects, either directly or through providing finance to third parties, noting that all accounts are invested in accordance with the Shari’a principles of Mudarabah or investment Wakala.

Gold Account

Out of KFH’ keenness on diversification of the product activities and keeping pace with the global economic changes that had been accompanied with increased global trends for buying and selling gold bullion, KFH has launched the Gold Account which enables customers to buy, sell, withdraw and deposit gold (when needed) through banking accounts while holding gold owned by the customer as a trust at KFH. Moreover, KFH’s customers using KFH online service can benefit from the “Gold Account” service to open an account, buy and sell gold, and request statement of account through KFH online services or KFH mobile application.

Sixth: Shari’a Controls

Fatwa and Shari’a Supervisory Board

Fatwa and Shari’a Supervisory Board (“FSSB”) follows regulatory policies and procedures to ensure the compliance of all KFH’s sectors and departments to its decisions. To achieve this goal, FSSB may adopt the following:

Develop Shari’a training programs for KFH employees on the basic and advanced levels in coordination with the Training and Development - Human Resources and General Services Department - KFH.

Ensure the compliance of KFH’s sectors and departments with presenting all their activities to FSSB, to review and approve the contracts and agreements models, policies, procedures and financing structures; with a view of ensuring that they are free of Shari’a prohibitions.

Review the periodical and final Shari’a audit reports related to all KFH’s sectors and departments as raised by Shari’a Control and Consultancy Department; to ensure the compliance with Shari’a regulations.

Ensure that all revenues recognized from non-Shari’a compliant sources or by means prohibited by Shari’a have been disposed to be used for charity purposes.

Zakat is calculated following the CBK’s approval on KFH’s financial statements.

The General Assembly shall determine the remuneration of the FSSB’s members.

Auditors' Report & Consolidated Financial Statements

Kuwait Finance House K.S.C.P and Subsidiaries
CONSOLIDATED FINANCIAL STATEMENTS
31 December 2017

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF KUWAIT FINANCE HOUSE K.S.C.P.

Report on the Audit of Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Kuwait Finance House K.S.C.P. ("the Bank") and its subsidiaries (collectively "the Group"), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of income, 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 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted for use by the State of Kuwait.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). 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' *Code of Ethics for Professional Accountants* (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 each matter below, our description of how our audit addressed the matter is provided in that context.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF KUWAIT FINANCE HOUSE K.S.C.P. (continued)

Report on the Audit of Consolidated Financial Statements (continued)

Key Audit Matters (continued)

Impairment of financing receivables
Impairment of financing receivables is a subjective area due to the level of judgement applied by management in determining provisions, such as

- the identification of impairment events, which differs based upon the type of financing product and customer and accordingly requires judgement on whether a loss has been incurred; and
- the determination of appropriate parameters and assumptions used to calculate impairment such as the credit assessment of customers that may default, the valuation of collateral for secured financing and the future cash flows of financing receivables granted.

Due to the significance of financing receivables (representing 53.01% of the total assets) and the related estimation uncertainty, this is considered a key audit matter. The basis of the impairment provision policy is presented in the accounting policies in note 2 to the consolidated financial statements.

Our audit procedures included the assessment of controls over the granting, booking, monitoring and collecting processes of financing receivables and the impairment provisioning process, to confirm the operating effectiveness of the key controls in place that identify the impaired financing receivables and the required provisions against them.

In addition to testing the key controls, we have also performed the following procedures:

- We selected samples of financing receivables outstanding as at the reporting date and assessed critically the criteria for determining whether an impairment event had occurred and therefore whether there was a requirement to calculate an impairment provision.
- Our selected samples included non-performing financing receivables, where we assessed management's forecast of recoverable cash flows, valuation of collaterals, estimates of recovery on default and other sources of payment. For the performing financing receivables, we assessed that the customers did not exhibit any possible default risk that may affect the payment abilities.

The disclosure relating to the financing receivables are given in note 10 of the consolidated financial statements.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF KUWAIT FINANCE HOUSE K.S.C.P. (continued)

Report on the Audit of Consolidated Financial Statements (continued)

Key Audit Matters (continued)

Impairment of associates and joint ventures
The investment in associates and joint ventures are accounted for under the equity method of accounting and considered for impairment in case of indication of impairment. The investment in associates and joint ventures is significant to our audit due to the Group's share of results in the associates and joint ventures and the carrying value of those associates and joint ventures. In addition, the management to assess impairment of investment in associates and joint ventures uses judgement and estimates. Accordingly, we considered this as a key audit matter.

In our audit procedures, we evaluated management's considerations of the impairment indicators of investment in associates and joint ventures. In such consideration, we assessed whether any significant or prolonged decline in value exists, significant adverse changes in the technological, market, economic, or legal environment in which the investee operates, structural changes in the industry in which the investee operates, changes in the political or legal environment affecting the investee's business and changes in the investee's financial condition.

The disclosure relating to associates and joint ventures are given in notes 12 and 13 of the consolidated financial statements.

Impairment test of investment properties and trading properties
As at 31 December 2017, investment properties and trading properties amounting to KD 715,458 thousand represents 4.12% of total assets. The valuation of real estate properties was significant to our audit because this process is complex and requires judgement. Furthermore, there is an increased risk of impairment due to deteriorated market outlook in various geographical areas, in which the Group operates.

We selected samples and considered the methodology and the appropriateness of the valuation models and inputs used to value the real estate properties. Further, we used our internal specialists to assess the valuation of a sample of real estate properties located outside the State of Kuwait. As part of these audit procedures, we assessed the accuracy of key inputs used in the valuation such as the rents, gross multiplier yield, market comparable, and discount rates. We also evaluated the Group's assessment whether objective evidence of impairment exists for international real estate.

The disclosure relating to the investment properties is given in note 14 to the consolidated financial statements.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF KUWAIT FINANCE HOUSE K.S.C.P. (continued)

Report on the Audit of Consolidated Financial Statements (continued)

Key Audit Matters (continued)

Valuation of currency swaps, profit rate swaps, forward foreign exchange and forward commodity contracts ("Islamic derivative financial instruments")

The Group has significant Islamic derivative financial instruments, the valuation of which is determined through the application of valuation techniques, which often involve the exercise of judgement and the use of assumptions and estimates. Due to the significance of Islamic derivative financial instruments and the related estimation and uncertainty, there is a risk that the related financial assets and liabilities are misstated.

Our audit procedures included assessment of controls over the identification, measurement and management of Islamic derivative financial instrument to confirm the operating effectiveness of the key controls in place.

Our audit procedures also comprised of an assessment of the methodology and the appropriateness of the valuation models used to value Islamic derivative financial instruments. Further, we used our internal specialists to assess the valuation of a sample of each type of Islamic derivative financial instruments. As part of these audit procedures, we assessed the accuracy of key inputs used in the valuations such as contractual cash flows, risk free rates, profit rate volatility, swap rates, profit spot rates, implied forward rates and quoted prices from market data providers, by benchmarking them with external data. Finally, we considered completeness and accuracy of the disclosures related to Islamic derivative financial instruments to assess compliance with the disclosure requirements.

The disclosure relating to Islamic derivative financial instruments is given in note 25 to the consolidated financial statements.

Other information included in the Annual Report of the Group for the year ended 31 December 2017

Management is responsible for the other information. Other information consists of the information included in the Annual Report of the Group for the year ended 31 December 2017, 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 Annual Report for the year ended 31 December 2017 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 in 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 of this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF KUWAIT FINANCE HOUSE K.S.C.P. (continued)

Report on the Audit of Consolidated Financial Statements (continued)

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 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.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF KUWAIT FINANCE HOUSE K.S.C.P. (continued)

Report on the Audit of Consolidated Financial Statements (continued)

Auditors' Responsibilities for the Audit of Consolidated Financial statements (continued)

- 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 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, related safeguards.

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.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF KUWAIT FINANCE HOUSE K.S.C.P. (continued)

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 Central Bank of Kuwait ("CBK") as stipulated in CBK Circular Nos. 2/RB, RBA/336/2014 dated 24 June 2014 and 2/I.B.S./343/2014 dated 21 October 2014 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 2/I.B.S./343/2014 dated 21 October 2014 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 2017 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 Central Bank of Kuwait and the organisation of banking business, and its related regulations, during the year ended 31 December 2017 that might have had a material effect on the business of the Bank or on its financial position.

WALEED A. AL OSAIMI	BADER A. AL-WAZZAN
LICENCE NO. 68 A	LICENCE NO. 62A
EY	DELOITTE & TOUCHE
AL-AIBAN, AL-OSAIMI & PARTNERS	AL-WAZZAN & CO.

8 January 2018
Kuwait

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2017

	Notes	2017	2016
		KD 000's	
INCOME			
Financing income		**740,509**	717,886
Finance cost and distribution to depositors		**(295,662)**	(282,931)
Net finance income		**444,847**	434,955
Investment income	3	**106,571**	78,885
Fees and commissions income		**96,896**	88,649
Net gain from foreign currencies		**17,325**	23,181
Other income	4	**47,641**	33,980
TOTAL OPERATING INCOME		**713,280**	659,650
EXPENSES			
Staff costs	20	**(187,523)**	(173,663)
General and administrative expenses		**(82,824)**	(84,457)
Depreciation and amortization		**(34,671)**	(36,834)
TOTAL OPERATING EXPENSES		**(305,018)**	(294,954)
NET OPERATING INCOME		**408,262**	364,696
Provisions and impairment	5	**(163,411)**	(157,198)
Loss for the year from discontinuing operations	17	**(228)**	(21,594)
PROFIT BEFORE TAXATION AND PROPOSED DIRECTORS' FEES		**244,623**	185,904
Taxation	6	**(29,590)**	(23,193)
Proposed directors' fees	23	**(878)**	(772)
PROFIT FOR THE YEAR		**214,155**	161,939
Attributable to:			
Shareholders of the Bank		**184,155**	165,228
Non-controlling interests		**30,000**	(3,289)
		214,155	161,939
BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO THE SHAREHOLDERS OF THE BANK	7	**32.41 fils**	29.10 fils

The attached notes 1 to 35 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2017

	Note	2017 KD 000's	2016 KD 000's
Profit for the year		**214,155**	161,939
Other comprehensive (loss) income			
Other comprehensive items that are or may be reclassified to consolidated statement of income in subsequent periods:			
Change in fair value of financial assets available for sale		**12,667**	(22,023)
Realised (gain) loss on financial assets available for sale		**(34,714)**	6,336
Impairment losses of financial assets available for sale transferred to consolidated statement of income	5	**16,768**	26,927
Share of other comprehensive income (loss) of associates and joint ventures		**270**	(2,888)
Exchange differences on translation of foreign operations		**(37,782)**	(68,880)
Other comprehensive loss for the year		**(42,791)**	(60,528)
Total comprehensive income		**171,364**	101,411
Attributable to:			
Shareholders of the Bank		**155,405**	128,811
Non-controlling interests		**15,959**	(27,400)
		171,364	101,411

The attached notes 1 to 35 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2017

	Notes	2017	2016
		KD 000's	
ASSETS			
Cash and balances with banks	8	**1,262,456**	1,494,657
Short-term murabaha	9	**2,925,329**	2,877,241
Financing receivables	10	**9,216,475**	8,175,789
Investment in Sukuk		**1,428,655**	1,099,603
Trading properties		**161,137**	186,341
Investments	11	**304,293**	356,521
Investment in associates and joint ventures	12,13	**463,797**	469,468
Investment properties	14	**554,321**	590,801
Other assets	15	**464,558**	548,652
Intangible assets and goodwill	16	**38,659**	39,175
Property and equipment		**214,001**	216,212
Assets classified as held for sale	17	**324,300**	444,893
TOTAL ASSETS		**17,357,981**	16,499,353
LIABILITIES			
Due to banks and financial institutions		**2,239,923**	2,398,590
Sukuk payables		**518,078**	473,061
Depositors' accounts	19	**11,596,733**	10,716,734
Other liabilities	20	**699,236**	644,651
Liabilities directly associated with the assets classified as held for sale	17	**187,889**	227,492
TOTAL LIABILITIES		**15,241,859**	14,460,528
EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE BANK			
Share capital	22	**576,569**	524,154
Share premium	21	**720,333**	720,333
Proposed issue of bonus shares	23	**57,657**	52,415
Treasury shares	22	**(45,063)**	(48,824)
Reserves	21	**466,101**	474,652
		1,775,597	1,722,730
Proposed cash dividends	23	**96,645**	87,755
TOTAL EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE BANK		**1,872,242**	1,810,485
Non-controlling interests		**243,880**	228,340
TOTAL EQUITY		**2,116,122**	2,038,825
TOTAL LIABILITIES AND EQUITY		**17,357,981**	16,499,353

HAMAD ABDUL MOHSEN AL-MARZOUQ
(CHAIRMAN)

MAZIN SAAD AL-NAHEDH
(GROUP CHIEF EXECUTIVE OFFICER)

The attached notes 1 to 35 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2017

KD 000's

	Attributable to the shareholders of the Bank								*Non-controlling interests*	*Total equity*
	Share capital	*Share premium*	*Proposed issue of bonus shares*	*Treasury shares*	*Reserves (Note 21)*	*Subtotal*	*Proposed cash dividends*	*Subtotal*		
Balance as at 1 January 2017	**524,154**	**720,333**	**52,415**	**(48,824)**	**474,652**	**1,722,730**	**87,755**	**1,810,485**	**228,340**	**2,038,825**
Profit for the year	-	-	-	-	**184,155**	**184,155**	-	**184,155**	**30,000**	**214,155**
Other comprehensive loss	-	-	-	-	**(28,750)**	**(28,750)**	-	**(28,750)**	**(14,041)**	**(42,791)**
Total comprehensive income	-	-	-	-	**155,405**	**155,405**	-	**155,405**	**15,959**	**171,364**
Issue of bonus shares	**52,415**	-	**(52,415)**	-	-	-	-	-	-	-
Zakat paid	-	-	-	-	**(9,682)**	**(9,682)**	-	**(9,682)**	-	**(9,682)**
Cash dividends paid	-	-	-	-	-	-	**(87,755)**	**(87,755)**	-	**(87,755)**
Distribution of profit: (Note 23)										
Proposed issue of bonus shares	-	-	**57,657**	-	**(57,657)**	-	-	-	-	-
Proposed cash dividends	-	-	-	-	**(96,645)**	**(96,645)**	**96,645**	-	-	-
Net movement in treasury shares	-	-	-	**3,761**	**1**	**3,762**	-	**3,762**	-	**3,762**
Disposal of a subsidiary (Note 18)	-	-	-	-	-	-	-	-	**(1,434)**	**(1,434)**
Change of ownership interest without loss of control (Note 18)	-	-	-	-	**27**	**27**	-	**27**	**4,440**	**4,467**
Net other change in non- controlling interests	-	-	-	-	-	-	-	-	**(3,425)**	**(3,425)**
Balance as at 31 December 2017	**576,569**	**720,333**	**57,657**	**(45,063)**	**466,101**	**1,775,597**	**96,645**	**1,872,242**	**243,880**	**2,116,122**

The attached notes 1 to 35 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

For the year ended 31 December 2017

KD 000's

	Attributable to the shareholders of the Bank								*Non-controlling interests*	*Total equity*
	Share capital	*Share premium*	*Proposed issue of bonus shares*	*Treasury shares*	*Reserves (Note 21)*	*Subtotal*	*Proposed cash dividends*	*Subtotal*		
Balance as at 1 January 2016	476,504	720,333	47,650	(50,173)	505,067	1,699,381	79,755	1,779,136	276,353	2,055,489
Profit for the year	-	-	-	-	165,228	165,228	-	165,228	(3,289)	161,939
Other comprehensive loss	-	-	-	-	(36,417)	(36,417)	-	(36,417)	(24,111)	(60,528)
Total comprehensive income (loss)	-	-	-	-	128,811	128,811	-	128,811	(27,400)	101,411
Issue of bonus shares	47,650	-	(47,650)	-	-	-	-	-	-	-
Zakat paid	-	-	-	-	(7,914)	(7,914)	-	(7,914)	-	(7,914)
Cash dividends paid	-	-	-	-	-	-	(79,755)	(79,755)	-	(79,755)
Distribution of profit: (Note 23)										
Proposed issue of bonus shares	-	-	52,415	-	(52,415)	-	-	-	-	-
Proposed cash dividends	-	-	-	-	(87,755)	(87,755)	87,755	-	-	-
Net movement in treasury shares	-	-	-	1,349	(349)	1,000	-	1,000	-	1,000
Deconsolidation of a subsidiary	-	-	-	-	-	-	-	-	(13,132)	(13,132)
Acquisition of non-controlling interests					(10,793)	(10,793)		(10,793)	(9,207)	(20,000)
Dividends paid to non- controlling interests	-	-	-	-	-	-	-	-	(1,596)	(1,596)
Net other change in non- controlling interests	-	-	-	-	-	-	-	-	3,322	3,322
Balance as at 31 December 2016	524,154	720,333	52,415	(48,824)	474,652	1,722,730	87,755	1,810,485	228,340	2,038,825

The attached notes 1 to 35 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2017

	Notes	2017	2016
		KD 000's	
OPERATING ACTIVITIES			
Profit for the year		**214,155**	161,939
Adjustments to reconcile profit to net cash flows:			
Depreciation and amortisation		**34,671**	36,834
Provisions and impairment		**163,411**	157,198
Dividend income	3	**(5,345)**	(5,681)
Gain on sale of investments	3	**(47,159)**	(6,656)
Gain on sale of real estate investments	3	**(12,809)**	(12,209)
Share of results of investment in associates and joint ventures	3	**(13,203)**	(10,934)
Other investment income	3	**(13,727)**	(30,067)
		319,994	290,424
Changes in operating assets and liabilities:			
(Increase) decrease in operating assets:			
Financing receivables and short term murabaha		**(1,463,612)**	(263,769)
Trading properties		**10,799**	16,309
Other assets		**99,585**	(264,698)
Statutory deposit with Central Banks		**(151,592)**	44,410
Increase (decrease) in operating liabilities:			
Due to banks and financial institutions		**(319,030)**	(69,927)
Depositors' accounts		**1,139,678**	(47,246)
Other liabilities		**(3,298)**	128,632
Net cash flows used in operating activities		**(367,476)**	(165,865)
INVESTING ACTIVITIES			
Investments, net		**(290,795)**	(171,676)
Purchase of investment properties		**(7,134)**	(20,150)
Proceeds from sale of investment properties		**19,542**	19,465
Purchase of property and equipment		**(37,825)**	(58,195)
Proceeds from sale of property and equipment		**1,814**	25,167
Intangible assets, net		**(4,859)**	(5,068)
Leasehold rights, net		**(665)**	(13,307)
Purchase of investments in associates and joint ventures		**(770)**	(9,169)
Proceeds from sale of investments in associates and joint ventures		**31,406**	15,884
Proceed from disposal of subsidiaries		**10,068**	(1,450)
Dividend received		**15,148**	11,856
Acquisition of non-controlling interest		**-**	(20,000)
Net cash flows used in investing activities		**(264,070)**	(226,643)
FINANCING ACTIVITIES			
Cash dividends paid		**(87,755)**	(79,755)
Zakat paid		**(9,682)**	(7,914)
Net movement in treasury shares		**3,762**	1,000
Dividend paid to non-controlling interests		**-**	(1,596)
Net cash flows used in financing activities		**(93,675)**	(88,265)
DECREASE IN CASH AND CASH EQUIVALENTS		**(725,221)**	(480,773)
Cash and cash equivalents as at 1 January		**2,092,111**	2,572,884
CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER	8	**1,366,890**	2,092,111

The attached notes 1 to 35 form part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2017

1 CORPORATE INFORMATION

The consolidated financial statements of the Group for the year ended 31 December 2017 were authorised for issue in accordance with a resolution of the Bank's Board of Directors on 8 January 2018. The general assembly of the shareholders of the Bank has the power to amend these consolidated financial statements after issuance.

The Group comprises Kuwait Finance House K.S.C.P. ("the Bank") and its consolidated subsidiaries (collectively "the Group") as noted in Note 18.1. The Bank is a public shareholding company incorporated in Kuwait on 23 March 1977 and is registered as an Islamic bank with the Central Bank of Kuwait ("the CBK"). It is engaged in all Islamic banking activities for its own account as well as for third parties, including financing, purchase and sale of investments, leasing, project construction and other trading activities without practising usury. The Bank's registered head office is at Abdulla Al-Mubarak Street, Murqab, Kuwait.

All activities are conducted in accordance with Islamic Shari'a, as approved by the Bank's Fatwa and Shari'a Supervisory Board.

2 SIGNIFICANT ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with the regulations of the Government of Kuwait for financial services institutions regulated by the Central Bank of Kuwait. These regulations require adoption of all International Financial Reporting Standards (IFRS) except for the IAS 39 requirement for collective provision, which has been replaced by the Central Bank of Kuwait's requirement for a minimum general provision as described under the accounting policy for impairment of financial assets.

The consolidated financial statements are prepared under the historical cost convention modified to include the measurement at fair value of financial assets available for sale, venture capital at fair value through statement of income, precious metals inventory, currency swaps, profit rate swaps, forward foreign exchange and forward commodity contracts.

The consolidated financial statements are presented in Kuwaiti Dinars (KD) and all values are rounded to the nearest thousand Dinars, except when otherwise indicated.

Further, certain prior year amounts have been reclassified to conform to the current year presentation. These reclassifications were made in order to more appropriately present certain items of consolidated statement of financial position, consolidated statement of income, consolidated cash flow statement and disclosures. Such reclassifications do not affect previously reported assets, liabilities, equity and profit for the year, nor materially affect the consolidated cash flow statement.

2.2 PRESENTATION OF FINANCIAL STATEMENTS

The Group presents its statement of consolidated financial position in order of liquidity.

2.3 CHANGES IN ACCOUNTING POLICIES

The accounting policies applied are consistent with those used in the previous year. Amendments to IFRSs which are effective for annual accounting period starting from 1 January 2017 did not have any material impact on the accounting policies, financial position or performance of the Group.

2.4 STANDARDS ISSUED BUT NOT YET EFFECTIVE

Standards issued but not yet effective up to the date of issuance of the Group's consolidated financial statements are listed below. This listing is of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt those standards when they become effective.

IFRS 9 Financial Instruments
The IASB issued the final version of IFRS 9 Financial Instruments in July 2014, that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2017

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

IFRS 9 Financial Instruments (continued)
The Group plans to adopt the new standard on the required effective date from 1 January 2018. The Group will avail the exemption allowing it not to restate comparative information for prior periods. Differences in the carrying amounts of financial assets resulting from the adoption of IFRS 9 should be recognised in opening retained earnings and reserves as at 1 January 2018.

During the year 2017, the Group has performed a detailed impact assessment of IFRS 9. Based on the result of this exercise, existing impairment provisions significantly exceed the impairment provisions required by IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group, until the Group presents its first financial statements that include the date of initial application.

(a) Classification and measurement
IFRS 9 contains a new classification and measurement approach for financial assets that reflect the business model in which assets are managed and their cash flow characteristics. IFRS 9 contains three classification categories for financial assets: measured at Amortised Cost, Fair Value through Other Comprehensive Income ("FVOCI") (with and without recycling of gains or losses to profit or loss on derecognition of debt and equity instruments, respectively) and Fair Value Through Profit or Loss ("FVTPL"). The standard eliminates the existing IAS 39 categories of held to maturity, financing and receivables and available for sale.

The Group has evaluated the classification and measurement criteria to be adopted for various financial assets considering the IFRS 9 requirements with respect to the business model and contractual cash flow characteristics ("CCC") / Solely payment of principal and interest ("SPPI"). The impact from the classification and measurement is as follows:

- Certain open-ended funds currently classified as financial assets held as available-for-sale with gains and losses recorded in OCI will, instead, be measured at FVTPL. The changes in fair values related to those investments, which is currently presented under cumulative changes in fair value reserve, will be reclassified to retained earnings.

- At 31 December 2017, the Group has equity securities classified as available-for-sale. Under IFRS 9, the Group has assessed the impact of designating these investments as FVOCI or FVTPL and is in the process of seeking required internal approvals. Consequently, in case of designating these investments as FVOCI, all fair value gains and losses will be reported in OCI, no impairment losses will be recognised in consolidated income statement and no gains or losses will be classified to consolidated income statement on disposal. Alternatively, if designated as FVTPL, all unrealised and realised gain or loss on these investments would be recorded in the consolidated income statement, and adjustment would be made to the opening balance of retained earnings equivalent to the current fair value reserve related to those investments.

- The Group also expects to continue measuring at fair value all financial assets currently held at fair value.

- Debt securities, currently classified as "available-for-sale", are expected to be measured at FVOCI under IFRS 9 as the Group expects to hold these assets under the business model to collect contractual cash flows or to sell a significant amount on a relatively frequent basis.

- Financing and receivables will continue to be held under the business model to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and financing income. The Group analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under IFRS 9. Therefore, reclassification for these instruments is not required.

- There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from IAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2017

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

IFRS 9 Financial Instruments (continued)

(b) Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' ("ECL") model. This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

Under IFRS 9, the impairment requirements apply to financial assets measured at amortised cost, debt instruments classified as fair value through other comprehensive income and certain financing commitments and financial guarantee contracts. At initial recognition, allowance is required for expected credit losses ('ECL') resulting from default events that are possible within the next 12 months ('12-month ECL'). In the event of a significant increase in credit risk, allowance is required for ECL resulting from all possible default events over the expected life of the financial instrument ('lifetime ECL').

The Group will determine the potential impact of the expected provision for credit losses in accordance with IFRS (9) during the period ended 31 March 2018. The Group will also comply with instructions that shall be issued by the Central Bank of Kuwait in this regard.

(c) Hedge accounting

The hedging requirements of IFRS 9 are not expected to have a significant impact on Group's consolidated financial statements.

(d) Disclosure

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard. The Group's assessment included an analysis to identify data gaps against current process and the Group has implemented the system and controls changes that it believes are necessary to capture the required data.

IFRS 15: Revenue from Contracts with customers

IFRS 15 was issued by IASB on 28 May 2014, effective for annual periods beginning on or after 1 January 2018. IFRS 15 supersedes IAS 11 Construction Contracts and IAS 18 Revenue along with related IFRIC 13, IFRIC 15, IFRIC 18 and SIC 31 from the effective date. This new standard removes inconsistencies and weaknesses in previous revenue recognition requirements, provides a more robust framework for addressing revenue issues and improves comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets.

Revenue under IFRS 15 will need to be recognised as goods and services are transferred, to the extent that the transferor anticipates entitlement to goods and services. The standard will also specify a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cashflows with customers. Based on the assessment, adoption of IFRS 15 is not expected to have any material effect on the Group's consolidated financial statements.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively.

IAS 7 Disclosure Initiative – Amendments to IAS 7

The amendments to IAS 7 Statement of Cash Flows are part of the IASB's Disclosure Initiative and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. These amendments are effective for annual periods beginning on or after 1 January 2017, with early application permitted.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2017

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12
The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. Entities are required to apply the amendments retrospectively. These amendments are not expected to have any impact on the Group.

IFRS 16 Leases
IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*,IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17.

The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the financing expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.
IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. The group is in the process of assessing the impact of IFRS 16 on its consolidated financial statements.

2.5 BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Group as at 31 December each year and its subsidiaries as at the same date or a date not earlier than three months from 31 December. The financial statements of subsidiaries, associates and joint ventures are prepared using consistent accounting policies and are adjusted, where necessary, to bring the accounting policies in line with those of the Group. All significant intercompany balances and transactions, including unrealised profits arising from intra-group transactions have been eliminated on consolidation.

a. Subsidiaries
Subsidiaries are all entities over which the Group has control. The 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.

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 subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Refer note 18 for the list of major subsidiaries, their principal businesses and the Group's effective holding.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2017

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 BASIS OF CONSOLIDATION (continued)

b. Non-controlling interest
Interest in the equity of subsidiaries not attributable to the Group is reported as non-controlling interest in the consolidated statement of financial position. For each business combination, non-controlling interest in the acquiree is measured either at fair value or at the proportionate share in the recognised amounts of the acquiree's identifiable net assets. Losses are allocated to the non-controlling interest even if they exceed the non-controlling interest's share of equity in the subsidiary. Transactions with non-controlling interests are treated as transactions with equity owners of the Group. A change in ownership interest in a subsidiary, without a loss of control, is accounted for as an equity transaction.

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business combinations and goodwill
Business combinations are accounted for using the purchase method of accounting. This involves recognising identifiable assets (including previously unrecognised intangible assets) and liabilities (including contingencies but excluding future restructuring) of the acquired business at fair value. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the fair values of the identifiable net assets acquired, the discount on acquisition is recognised directly in the consolidated statement of income in the year of acquisition.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually, or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash– generating units (CGUs) or group of CGUs, which are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes, and is not larger than an operating segment in accordance with IFRS 8 Operating Segments.

Where goodwill has been allocated to a CGU (or group of CGUs) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed of in these circumstances is measured based on the relative fair values of the disposed operation and the portion of the CGU retained.

When subsidiaries are sold, the difference between the selling price and the net assets plus associated cumulative translation differences, cash flow hedge and available-for-sale reserves and goodwill is recognised in the consolidated statement of income.

Associates and joint ventures
Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

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 unanimous consent of the parties sharing control. The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

Investment in an associate and joint ventures are initially recognised at cost and subsequently accounted for by the equity method of accounting. The Group's share of its associates' and joint ventures post-acquisition profits or losses is recognised in the consolidated statement of income, and its share of post-acquisition movements in other comprehensive income is recognised in the consolidated statement of other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

The Group determines at each reporting date whether there is any objective evidence that the investment in associate and joint ventures are impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and joint venture and its carrying value and recognises the amount in the consolidated statement of income. Upon loss of significant influence or joint control over the associate or joint venture, the Group measures and recognises any retained investment at its fair value. Gain or loss on such transaction is computed by comparing the carrying amount of the associate or joint venture at the time of loss of significant influence or joint control with the aggregate of fair value of the retained investment and proceeds from disposal. Such gain or loss is recognised in the consolidated statement of income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2017

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency translation
The consolidated financial statements are presented in Kuwaiti Dinars, which is the Group's functional and presentational currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

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

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the financial position date.

All differences are included within net gain/loss from foreign currencies in the consolidated statement of income, with the exception of the effective portion of the differences on foreign currency financing that are accounted for as an effective hedge against a net investment in a foreign entity. These differences are recognised in other comprehensive income until the disposal of the net investment, at which time, they are recognised in the consolidated statement of income. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

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.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on retranslation of non-monetary items is treated in line with the recognition of gain or loss on change in fair value of the item.

Group companies
On consolidation the assets and liabilities of foreign subsidiaries are translated into Kuwait Dinar at the rate of exchange prevailing at the reporting date and their income statements are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in other comprehensive income. On disposal, liquidation, repayment of share capital or abandonment of all, or part of a foreign subsidiary, the component of other comprehensive income relating to that particular is recognised in the consolidated statement of income.

Any goodwill arising on the acquisition of a foreign subsidiary 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 subsidiary and translated at the spot rate of exchange at the reporting date.

Revenue recognition
Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

i) Financing income is income from murabaha, istisna'a, leased assets, wakala investments and is determined by using the effective profit method. The effective profit method is a method of calculating the amortised cost of a financial asset and of allocating the financing income over the relevant period.
ii) Fee and commission income is recognised at the time the related services are provided.
iii) Rental income from investment properties is recognised on an accruals basis.
iv) Dividend income is recognised when the right to receive payment is established.
v) Operating lease income is recognised on a straight line basis in accordance with the lease agreement.
vi) Gain from real estate investments includes gains from sale, transfer and distribution of investment properties, trading properties, and share of result of real estate joint ventures. Real estate gain is recognised when the significant risks and returns have been transferred to the buyer including satisfaction of all conditions of a contract.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2017

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents
Cash and cash equivalents comprise cash, balances with Central Banks, tawarruq balances with the Central Bank of Kuwait, balances with banks and financial institutions, short-term murabaha contracts, cash in transit and exchange of deposits maturing within three months of contract date.

Leases
The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date: whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Group as a lessee
Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of profit on the remaining balance of the liability. Finance charges are charged in the consolidated statement of income. Capitalised leased assets are depreciated over the estimated useful lives of the asset. Operating lease payments are recognised as an expense in the consolidated statement of income on a straight line basis over the lease term.

Group as a lessor
Leased assets
This represents net investment in assets leased for periods which either approximate or cover a major part of the economic lives of such assets. The lease agreements provide a purchase option to lessees at a price equal or expected to be equal or lower than fair value of such assets at the time when such option is exercised.

Operating leases
Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases.

Leased assets are stated at amounts equal to the net investment outstanding in the leases.

Trading properties
Trading properties are measured initially at cost. Subsequent to initial recognition, trading properties are carried at the lower of cost or net realizable value determined on an individual basis.

Investment properties
Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at depreciated cost less impairment.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal.

The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the consolidated statement of income in the year of derecognition.

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

When the Group begins to redevelop an existing investment property with a view to selling the property, it is transferred to trading properties at carrying value.

Depreciation is provided on a straight-line basis over the estimated useful lives, that range from 20 – 25 years, of all rental properties other than freehold land which is deemed to have an indefinite life.

Properties under construction
Properties under construction or development for future use as investment properties are classified as investment properties and are carried at cost less any impairment in value. Costs are those expenses incurred by the Group that are directly attributable to the construction of the asset.

Precious metals inventory
Precious metals inventory primarily comprises Gold and is carried at the fair value less cost to sell.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2017

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition and subsequent measurement
The Group's financial assets are classified, at initial recognition, as financing receivables, trade receivables, Financial assets available for sale (AFS), Venture capital at fair value through statement of income, or as derivatives as appropriate. All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through the consolidated statement of income, transaction costs that are attributable to the acquisition of the financial asset.

The Group's financial liabilities include trade payables, accrued expense, financial guarantee contracts and derivative financial instruments. All financial liabilities are recognised initially at fair value

All "regular way" purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are 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 receivables
Receivables are financial assets originated by the Group and principally comprise murabahas, istisna'a, wakala receivables and leased assets. These are stated at amortised cost.

Murabaha is the sale of commodities and real estate at cost plus an agreed profit mark-up whereby the seller informs the purchaser of the price at which he purchases the product and also stipulates an amount of profit. These are stated at amortised cost.

Istisna'a is a sale contract between a contract owner and a contractor whereby the contractor based on an order from the contract owner undertakes to manufacture or otherwise acquire the subject matter of the contract according to specifications, and sells it to the contract owner for an agreed upon price and method of settlement whether that be in advance, by instalments or deferred to a specific future time.

Wakala is an agreement whereby the Group provides a sum of money to a customer under an agency arrangement, who invests it according to specific conditions in return for a fee. The agent is obliged to return the amount in case of default, negligence or violation of any terms and conditions of the wakala.

Trade receivable
Trade receivables that primarily relate to subsidiaries in businesses other than financing are carried at amounts due, net of amounts estimated to be uncollectible. An estimate for doubtful accounts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred. This is included in other assets (Note 15).

Financial assets available for sale (AFS)
Financial assets available for sale include equity investments and debt securities (i.e. Investment in Sukook). Equity investments classified as available for sale are those, which are neither classified as held for trading nor designated at fair value through consolidated statement of income. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, financial assets available for sale are subsequently measured at fair value.

Unrealised gains and losses are recognised directly in the consolidated statement of other comprehensive income in the available-for-sale reserve. When the investment is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the consolidated statement of income. Profit earned whilst holding available-for-sale financial investments is reported as financing income using the EIR which takes into account any discount/premium and qualifying transaction costs that are an integral part of the instrument's yield. Dividends earned whilst holding available-for-sale financial investments are recognised in the consolidated statement of income when the right of the payment has been established. The losses arising from impairment of such investments are recognised in the consolidated statement of income in 'impairment losses on financial investments' and removed from the available-for sale reserve.

Venture capital at fair value through statement of income
Certain investments in joint ventures held directly or indirectly through venture capital segment are not accounted for using equity method, as the Bank has elected to measure these investments at fair value through statement of income in accordance with IAS 39, using the exemption of IAS 28: Investments in associates and joint ventures.

Venture capital at fair value through statement of income are carried in the consolidated statement of financial position at fair value with net changes in fair value presented as unrealized gain (loss) in the consolidated statement of income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2017

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition and subsequent measurement (continued)

Short-term murabahas
Short-term murabahas are financial assets originated by the Group and represent commodity murabaha transactions with high credit quality banks and financial institutions maturing within one year of the financial position date. These are stated at amortised cost.

Trade payable
Trade payable relates to non-financial subsidiaries of the Group. Liabilities are recognised for amounts to be paid in the future for goods whether or not billed to the Group.

Accrued expenses
Liabilities are recognised for amounts to be paid in the future for services received whether or not billed to the Group.

Financial guarantees
In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortisation.

De-recognition of financial assets and financial 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.

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 lender 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 income.

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 realize the assets and liabilities simultaneously.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2017

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting

Derivatives not designated as hedges:
Currency swaps, profit rate swaps, forward foreign exchange and forward commodity contracts instruments ("the instruments") are initially recognised in the consolidated statement of financial position at cost (including transaction costs) and subsequently measured at their fair value. The fair value of these instruments includes unrealized gain or loss from marking to market the instruments using prevailing market rates or internal pricing models. The instruments with positive market values (unrealised gains) are included in other assets and the instruments with negative market values (unrealised losses) are included in other liabilities in the consolidated statement of financial position. These instruments are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Any gains or losses arising from changes in the fair value of these instruments are taken directly to the consolidated statement of income.

Derivatives designated as hedges:
For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment
- Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment
- Hedges of a net investment in a foreign operation.

Cash flow hedges:
The effective portion of the gain or loss on the hedging instrument is recognised in the consolidated statement of other comprehensive income, while any ineffective portion is recognised immediately in the consolidated statement of income.

Amounts recognised as other comprehensive income are transferred to the consolidated statement of income when the hedged transaction affects 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 the consolidated statement of other comprehensive income at that time remains in the consolidated statement of other comprehensive income and is recognised when the hedged forecast transaction is ultimately recognised in the consolidated statement of income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in the consolidated statement of other comprehensive income is immediately transferred to the consolidated statement of income.

Hedges of a net investment:
Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised as other comprehensive income while any gains or losses relating to the ineffective portion are recognised in the consolidated statement of income. On disposal of the foreign operation, the cumulative value of any such gains or losses recorded in equity are transferred to consolidated statement of income

Embedded swaps and profit rate contracts:
Embedded swaps and profit rate instruments (the forwards) are separated from the host contract if the economic characteristics and risks of the forwards are not closely related to the economic characteristics and risks of the host contract, a separate instrument with the same terms as the forwards would meet the definition of a derivative and the hybrid instrument is not measured at fair value with changes in fair value recognised in the consolidated statement of income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2017

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting (continued)
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. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

At each hedge effectiveness assessment date, a hedge relationship must be expected to be highly effective on a prospective basis and demonstrate that it was highly effective (retrospective effectiveness) for the designated period in order to qualify for hedge accounting. A formal assessment is undertaken both at inception and at each quarter end on an ongoing basis. A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated were offset by the hedging instrument in a range of 80% to 125% and were expected to achieve such offset in future periods. For situations where the hedged item is a forecast transaction, the Group also assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the consolidated statement of income.

Impairment of financial assets
The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include: indications that the customer or a group of customers is experiencing significant financial difficulty; the probability that they will enter bankruptcy or other financial reorganisation; default or delinquency in profit or principal payments; and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost
For financial assets carried at amortised cost the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective profit rate.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in consolidated statement of income. Financing receivables together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to provision charged in the consolidated statement of income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2017

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost (continued)
In addition, in accordance with Central Bank of Kuwait instructions, a minimum general provision on all finance facilities net of certain categories of collateral, to which CBK instructions are applicable and not subject to specific provision, is made.

Financial assets available for sale and investment in sukuk
For available for sale financial assets, the Group assesses at each reporting date whether there is objective evidence that an investment or a Group of investments is impaired.

In the case of equity investments classified as financial assets available for sale, objective evidence would include:

- A 'significant' or 'prolonged' decline in the fair value of the investment below its cost and/or;
- Other information about the issuer that may negatively affect an equity issuer's performance 'Significant' is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of income is recognised in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income; increases in their fair value after impairment are recognised directly in other comprehensive income.

In the case of sukook investments classified as available for sale, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of income. If, in a subsequent year, the fair value of a sukook increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

Property and equipment
Property and equipment are 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 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 charged to the consolidated statement of income during the financial year in which they are incurred.

Freehold land is not depreciated. Depreciation 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 years
- Furniture, fixtures and equipment 3-5 years
- Motor vehicles 3 years

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

Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in the consolidated statement of income in the year the asset is derecognised.

Properties under development
Properties under development are carried at cost less any impairment in value. Costs are those expenses incurred by the Group that are directly attributable to the construction of asset. Once completed the asset is transferred to buildings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2017

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasehold rights
Leasehold rights acquired are measured on initial recognition at cost. Following initial recognition, leasehold rights are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Leasehold rights are amortised over their useful economic life and assessed for impairment whenever there is an indication that the leasehold rights may be impaired. The amortisation period and the amortisation method for leasehold rights is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on leasehold rights is recognised in the consolidated statement of income.

Gains or losses arising from derecognition of an leasehold right are measured as the difference between the net disposal proceeds and the carrying amount of the right and are recognised in the consolidated statement income when the asset is derecognised.

Intangible assets
An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Group.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the consolidated statement of income in the year in which the expenditure is incurred.

Amortisation is calculated using the straight–line method to write down the cost of intangible assets to their residual values over their estimated useful lives, as follows:

▪ License of Islamic brokerage company	assessed to have an indefinite useful life
▪ Software development cost	3-5 years
▪ Software license right	15 years
▪ Other rights	3-7 years

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life, or the expected pattern of consumption of future economic benefits embodied in the asset, are accounted for by changing the amortisation period or methodology, as appropriate, which are then treated as changes in accounting estimates.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated statement of income when the asset is derecognised. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2017

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 such indication exists, or when annual impairment testing for an asset is required, the Group estimates asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and 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 and then its recoverable amount is assessed as part of the cash-generating unit to which it belongs. Where the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) 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 discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or cash-generating unit). In determining fair value less costs to sell 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 detailed 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. For longer periods, 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 consolidated statement of income.

Goodwill is tested for impairment annually as at 31 December 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.

Taxation
Income tax payable on taxable profit ('current tax') is recognised as an expense in the period in which the profits arise in accordance with the fiscal regulations of the respective countries in which the Group operates. Deferred tax assets are recognised for deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent it is probable that taxable profit will be available to utilise these. Deferred tax liabilities are recognised for taxable temporary differences. Deferred tax assets and liabilities are measured using tax rates and applicable legislation enacted at the reporting date.

Non-current assets held for sale and disposal groups
The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the consolidated statement of income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2017

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement
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 in the principal or, in its absence, in the most advantageous market to which the Group has access at that date.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument.

A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

If an asset or liability measured at fair value has a bid price and an ask price, then the Group measures assets at a bid price and liabilities at an ask price.

The Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Financial assets available for sale
For investments traded in organized financial markets, fair value is determined by reference to stock exchange quoted market bid prices at the close of business on the reporting date.

For financial assets where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to recent arm’s length transactions, current fair value of another instrument that is substantially the same, an earnings multiple, or an industry specific earnings multiple or is based on the expected cash flows of the investment discounted at current rates applicable for items with similar terms and risk characteristics. Fair value estimates take into account liquidity constraints and assessment for any impairment.

Financial assets with no reliable measures of their fair values and for which no fair value information could be obtained are carried at their initial cost less impairment in value, if any.

Currency swaps, profit rate swaps, forward foreign exchange and forward commodity contracts
The fair value of currency swaps, profit rate swaps, forward foreign exchange and forward commodity contracts are determined based on valuations obtained from counterparty/third parties.

Other financial assets and liabilities
For other financial assets and liabilities, fair value is determined based on expected future cash flows and management’s estimate of the amount at which these assets could be exchanged for cash on an arm’s length basis or a liability settled to the satisfaction of creditors.

Investment properties
For investment properties, fair value is determined by independent registered real estate valuers who have relevant experience in the property market.

Due from/to customers for contract work
Due from/to customers of contracting subsidiaries for uncompleted contracts represents costs, which comprises direct materials, direct labour and an appropriate allocation of overheads, plus attributable profit to the extent that it is reasonably certain less provision for contingencies and any losses incurred or foreseen in bringing contracts to completion, and less any amounts received or receivable as progress billings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2017

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Finance cost
Finance cost is directly attributable to due to banks and financial institutions and depositors' accounts. All finance costs are expensed in the period they occur.

Other provisions and reserves
Other provisions and reserves are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, 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. The expense relating to any reserve provision is presented in the consolidated statement of income net of any reimbursement.

Reserves for maintenance
Provisions for maintenance –related costs are recognised when the service is provided. Initial recognition is based on historical experience. The initial estimate of maintenance –related costs is revised annually.

Employees' end of service benefits
The Group provides end of service benefits to its employees. The entitlement to these benefits is based upon the employees' final salary and length of service. The expected costs of these benefits are accrued over the period of employment.

Treasury shares
The Bank's holding of its own shares are accounted for as treasury shares and are stated at purchase consideration including directly attributable costs. When the treasury shares are sold, gains are credited to a separate account in equity (treasury share reserve) which is non distributable. Any realised losses are charged to the same account to the extent of the credit balance on that account. No cash dividends are distributed on these shares. The issue of bonus shares increases the number of shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

Fiduciary assets
The Group provides trust and other fiduciary services that result in the holding or investing of assets on behalf of its clients. Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and accordingly are not included in the consolidated statement of financial position. These are disclosed separately in the consolidated financial statements.

Judgments
In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Operating lease commitments – Group as lessor
The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a substantial portion of the economic life of the commercial property, that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases.

Classification of real estate
Management decides on acquisition of a developed and under development real estate property whether it should be classified as trading, investment property or property and equipment.

The Group classifies property as trading property if it is acquired principally for sale in the ordinary course of business or when it is being redeveloped for sale.

The Group classifies property as investment property if it is acquired to generate rental income or for capital appreciation, or for undetermined future use.

The Group classifies property as property and equipment when it is acquired for owner occupation.

Impairment of financial assets available for sale
The Group treats financial assets available for sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgement. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2017

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 discussed below.

Impairment of goodwill and intangible assets with indefinite useful life

The Group determines whether goodwill and intangible assets with indefinite useful life are impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Impairment of investment in associates and joint ventures

The Bank calculates the amount of impairment as the difference between the recoverable amount and its carrying value if there is any objective evidence that the investment in associates or joint ventures are impaired. The estimation of recoverable amount requires the Bank to make an estimate of the expected future cash flows and selection of appropriate inputs for valuation.

Impairment of investment properties and trading properties:

The Bank reviews the carrying amounts of its investment and trading properties to determine whether there is an indication that those assets have suffered an impairment loss if the fair values are below than the carrying values. The Bank management determines the main appropriate techniques and inputs required for measuring the fair value using observable market data and as appropriate, the Bank uses external valuers qualified to do the valuation.

Impairment losses on finance facilities

The Group reviews its finance facilities on a quarterly basis to assess whether a provision for impairment should be recorded in the consolidated statement of income. In particular, considerable judgement 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, and actual results may differ resulting in future changes to such provisions.

Valuation of unquoted equity investments

Valuation of unquoted equity investments is normally based on one of the following:

- recent arm’s length market transactions;
- current fair value of another instrument that is substantially the same;
- an earnings multiple;
- the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; or
- other valuation models.

The determination of the cash flows and discount factors for unquoted equity investments requires significant estimation. There are a number of investments where this estimation cannot be reliably determined. As a result, these investments are carried at cost less impairment.

3 INVESTMENT INCOME

	KD 000’s	
	2017	*2016*
Gain on sale of real estate investments	**12,809**	12,209
Rental income from investment properties	**14,328**	13,338
Dividend income	**5,345**	5,681
Gain on sale of investments	**47,159**	6,656
Share of results of investment in associates and joint ventures (Note 12 and Note 13)	**13,203**	10,934
Other investment income	**13,727**	30,067
	106,571	78,885

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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4 OTHER INCOME

	KD 000's	
	2017	*2016*
Income from sale of property and equipment	**3,193**	4,274
Real estate trading, development and construction income	**8,061**	3,240
Income from maintenance, services and consultancy	**12,198**	13,606
Rental income from operating lease	**7,647**	7,958
Other income	**16,542**	4,902
	47,641	33,980

5 PROVISIONS AND IMPAIRMENT

	KD 000's	
	2017	*2016*
Impairment on financing receivables (Note 10)	**90,910**	111,337
Recovery of written-off debts	**(22,735)**	(73,180)
Impairment of financial assets available for sale	**16,768**	26,927
Impairment of associates and joint ventures	**1,407**	3,157
Impairment of investment properties (Note 14)	**15,160**	3,425
Impairment of property and equipment	**-**	14,268
Impairment of intangible assets and goodwill (Note 16)	**73**	5,202
Impairment of non-cash facilities (Note 10)	**15,183**	12,435
Impairment of trading properties	**2,581**	5,955
Impairment of other assets and other provisions*	**44,064**	47,672
	163,411	157,198

* The comparative figure relating to the prior year includes reclassified provision amounting to KD 16,570 thousand relating to impairment loss recognised on discontinued operations.

6 TAXATION

	KD 000's	
	2017	*2016*
Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)	**1,774**	1,731
National Labour Support Tax (NLST)	**4,008**	3,624
Zakat (based on Zakat Law No. 46/2006)	**1,950**	1,762
Taxation related to subsidiaries	**21,858**	16,076
	29,590	23,193

7 BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO THE SHAREHOLDERS OF THE BANK

Basic and diluted earnings per share is calculated by dividing the profit for the year attributable to the shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year after adjusting for treasury shares held by the Group.

Basic and diluted earnings per share:	***2017***	*2016*
Profit for the year attributable to shareholders of the Bank (thousand KD)	**184,155**	165,228
Weighted average number of shares outstanding during the year (thousands share)	**5,682,662**	5,677,734
Basic and diluted earnings per share attributable to the shareholders of the Bank	**32.41 fils**	29.10 fils

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2017

7 BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO THE SHAREHOLDERS OF THE BANK (continued)

Basic and diluted earnings per share from continuing operations:	***2017***	*2016*
Profit for the year from continuing operations attributable to shareholders of the Bank (thousand KD)	**185,234**	184,515
Weighted average number of shares outstanding during the year (thousands share)	**5,682,662**	5,677,734
Basic and diluted earnings per share from continuing operation attributable to the shareholders of the Bank	**32.60 fils**	32.50 fils

The comparative basic and diluted earnings per share have been restated for bonus shares issued (Note 23).

The Bank has no dilutive potential shares.

As there are no dilutive instruments outstanding, basic and diluted earnings per share are identical.

8 CASH AND BALANCES WITH BANKS

		KD 000's
	2017	*2016*
Cash	**258,590**	251,707
Balances with Central Banks	**591,716**	715,371
Balances with banks and financial institutions – current accounts	**412,150**	527,579
Cash and balances with banks and financial institutions	**1,262,456**	1,494,657
Short-term murabaha maturing within 3 months of contract date	**805,930**	1,129,812
Cash with banks attributable to discontinued operation (Note 17)	**14,606**	32,152
Less: Statutory deposits with Central Banks	**(716,102)**	(564,510)
Cash and cash equivalents	**1,366,890**	2,092,111

Statutory deposits with Central Banks represent balances that are not available for use in the Group's day-to-day operations.

The fair values of cash and balances with banks do not differ from their respective book values.

9 SHORT-TERM MURABAHA

		KD 000's
	2017	*2016*
Short-term murabaha with banks	**836,525**	1,282,623
Short-term murabaha with Central Banks	**2,088,804**	1,594,618
	2,925,329	2,877,241

The fair value of short-term murabaha is not materially different from their respective carrying value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2017

10 FINANCING RECEIVABLES

Financing receivables principally comprise murabaha, wakala, leased assets, and istisna'a balances are stated net of impairment as follows:

	KD 000's	
	2017	*2016*
Financing receivables		
Murabaha and wakala	**8,999,840**	8,048,825
Leased assets	**1,847,974**	1,675,957
Istisna'a and other receivables	**102,687**	104,186
	10,950,501	9,828,968
Less: deferred and suspended profit	**(1,289,618)**	(1,127,413)
Net receivables	**9,660,883**	8,701,555
Less: impairment	**(444,408)**	(525,766)
	9,216,475	8,175,789

Impairment for financing receivables is analysed as follows:

	Specific		*General*		*Total*	
	2017	*2016*	**2017**	*2016*	**2017**	*2016*
Balance as at beginning of year	**228,090**	178,247	**297,676**	293,976	**525,766**	472,223
Provided during the year (Note 5)	**106,834**	102,243	**(15,924)**	9,094	**90,910**	111,337
Amounts written off and foreign currency translation	**(168,211)**	(52,400)	**(4,057)**	(5,394)	**(172,268)**	(57,794)
Balance as at end of year	**166,713**	228,090	**277,695**	297,676	**444,408**	525,766

KD 000's

Provision charged for the year on non-cash facilities is KD 15,183 thousand (2016: KD 12,435 thousand) (Note 5). The available provision balance on non-cash facilities of KD 46,341 thousand (2016: KD 31,588 thousand) is included under other liabilities (Note 20).

The fair values of financing receivables do not materially differ from their respective book values.

The future minimum lease payments receivable in the aggregate are as follows:

	KD 000's	
	2017	*2016*
Within one year	**977,436**	910,532
One to five years	**334,850**	324,154
After five years	**535,688**	441,271
	1,847,974	1,675,957

Non-performing financing facilities

As at 31 December 2017, non-performing cash finance facilities before impairment (net of deferred profit and suspended profit) amounted to KD 276,224 thousand (2016: KD 252,036 thousand).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2017

11 INVESTMENTS

	KD 000's 2017	KD 000's 2016
Managed portfolios*	**70,556**	92,592
Unquoted equity investments	**96,966**	112,620
Venture capital at fair value through statement of income	**39,648**	58,230
Mutual funds	**71,448**	49,453
Quoted equity investments	**25,675**	43,626
	304,293	356,521
Financial assets available for sale at fair value	**168,143**	173,844
Financial assets available for sale carried at cost less impairment	**96,502**	124,447
Venture capital at fair value through statement of income	**39,648**	58,230
	304,293	356,521

*Included in managed portfolios amount of KD 55,301 thousand (2016: KD 54,172 thousand) which represents the Bank's investment in 96,008 thousand shares (2016: 100,319 thousand shares) of the Bank on behalf of depositors, equivalent to 1.67% of the total issued share capital at 31 December 2017 (2016: 1.91%). The results from activities relating to dealing in these shares are attributed only to the depositors, and hence these shares are classified under investments.

12 INVESTMENT IN ASSOCIATES

The major associates of the Group are as follows:

	Interest in equity % 2017	*Interest in equity %* 2016	*Country of registration*	*Principal activities*	*Financial statements reporting date*
Sharjah Islamic Bank P.J.S.C.	**20**	20	United Arab Emirates	Islamic banking services	30 September 2017
Ibdar Bank B.S.C.	**40**	40	Bahrain	Islamic banking service	30 September 2017
Aviation Lease and Finance Company K.S.C.P. (ALAFCO)	**46**	46	Kuwait	Aircraft leasing and financing services	30 September 2017

The following table illustrates the summarised aggregate information of the Group associates, as all associates are individually immaterial:

Summarised consolidated statement of financial position:

	KD 000's 2017	KD 000's 2016
Assets	**4,627,720**	4,255,179
Liabilities	**(3,618,076)**	(3,151,381)
Equity	**1,009,644**	1,103,798
Carrying amount of the investment	**288,598**	297,352

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2017

12 INVESTMENT IN ASSOCIATES (continued)

Summarised consolidated statement of income:

	KD 000's	
	2017	*2016*
Revenues	**356,354**	288,844
Expenses	**(302,336)**	(261,558)
Profit for the year	**54,018**	27,286
Group's share of profit for the year	**4,795**	3,610

Investments in associates with a carrying amount of KD 236,492 thousand (2016: KD 220,475 thousand) have a market value of KD 235,197 thousand at 31 December 2017 (2016: KD 206,118 thousand) based on published quotes.

Dividends received from the associates during the current year amounted to KD 3,288 thousand (2016: KD 3,985 thousand).

13 INVESTMENT IN JOINT VENTURES

The major joint ventures of the Group are as follows:

	Interest in equity %		*Country of registration*	*Principal activities*	*Financial statements reporting date*
	2017	*2016*			
Diyar Homes Company W.L.L (Souq Al Muharraq)	**50**	50	Bahrain	Real estate development	31 October 2017
Al Durrat Al Tijaria Company W.L.L	**50**	50	Bahrain	Real estate development	31 October 2017
Diyar Al Muharraq Company W.L.L.	**52**	52	Bahrain	Real estate development	31 October 2017

The following table illustrates the summarised aggregate information of the Group joint ventures, as all joint ventures are individually immaterial:

Summarised consolidated statement of financial position:

	KD 000's	
	2017	*2016*
Assets	**863,529**	794,246
Liabilities	**(482,728)**	(444,729)
Equity	**380,801**	349,517
Carrying amount of the investment	**175,199**	172,116

Summarised consolidated statement of income:

	KD 000's	
	2017	*2016*
Revenues	**80,240**	99,728
Expenses	**(63,947)**	(85,334)
Profit for the year	**16,293**	14,394
Group's share of profit for the year	**8,408**	7,324

Dividends received from the joint ventures during the current year amounted to KD 2,207 thousand (2016: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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14 INVESTMENT PROPERTIES

	KD 000's	
	2017	*2016*
As at 1 January	**590,801**	580,499
Additions	**7,811**	65,221
Transfer to trading properties	**(1,377)**	(1,962)
Disposals	**(20,821)**	(9,062)
Discontinued operations	**-**	(33,419)
Depreciation charge for the year	**(6,933)**	(7,051)
Impairment (Note 5)	**(15,160)**	(3,425)
As at 31 December	**554,321**	590,801

	KD 000's	
	2017	*2016*
Developed properties	**421,854**	435,591
Properties under construction	**132,467**	155,210
	554,321	590,801

15 OTHER ASSETS

	KD 000's	
	2017	*2016*
Precious metals inventory	**31,776**	70,495
Trade receivable	**100,013**	137,017
Clearing accounts	**102,828**	100,902
Receivables on sale of investment	**22,601**	47,342
Deferred tax	**24,564**	23,214
Advances and prepayments	**76,222**	59,024
Other miscellaneous assets	**106,554**	110,658
	464,558	548,652

16 INTANGIBLE ASSETS AND GOODWILL

	KD 000's	
	2017	*2016*
Intangible assets	**32,010**	32,453
Goodwill	**6,649**	6,722
	38,659	39,175

Movement of intangible assets is as follows:

	KD 000's	
	2017	*2016*
Cost		
As at 1 January	**71,588**	77,752
Additions	**6,596**	3,958
Disposal	**(3,685)**	(4,936)
Impairment	**-**	(5,186)
As at 31 December	**74,499**	71,588

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16 INTANGIBLE ASSETS AND GOODWILL (continued)

	KD 000's	
	2017	*2016*
Accumulated amortization		
As at 1 January	**39,135**	36,530
Charge for the year	**4,290**	4,231
Disposals	**(936)**	(1,626)
As at 31 December	**42,489**	39,135
Net book value		
As at 31 December	**32,010**	32,453

Intangible asset include license of an islamic brokerage company amounting to KD 14,671 thousand (2016: KD 14,671 thousand) and is considered as an intangible asset with an indefinite useful life. The carrying value of the islamic brokerage license is tested for impairment on an annual basis by estimating the recoverable amount of the cash generating unit (CGU). The recoverable amount of the license has been determined using a discount rate of 10.12% (2016: 9.79%) and a terminal growth rate of 3.3% (2016: 3%). As a result, the management believes there are no indications of any impairment in value. Other intangible assets amounting to KD 17,339 thousand (2016: KD 17,782 thousand) represent software development cost, software license right and other rights with finite useful lives. Intangible assets with finite lives are amortised over their useful economic life.

17 DISCONTINUED OPERATIONS

On 30 June 2016, the Board of Directors of the Bank approved to sell the Group's interest in its subsidiary Aref Investment Group (AIG). As a result, the consolidated statement of financial position at 31 December 2017 presents the assets and liabilities of AIG as assets classified held for sale and liabilities directly associated with the assets classified as held for sale, respectively, in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations".

The major classes of assets of AIG comprise of leasehold rights, investments in equities and real estate and liabilities comprise of due to banks and financial institutions and other liabilities.

The Bank has presented AIG assets classified as held for sale amounting to KD 308,045 thousands and liabilities directly associated with the assets classified as held for sale amounting to KD 185,319 thousands in the consolidated statement of financial position.

During the current year, the Board of Directors of a subsidiary approved to sell the company's interest in its subsidiary New Technology Bottling Company K.S.C (Closed) (NTBC). As a result, the consolidated statement of financial position of the Bank as at 31 December 2017 presents the assets and liabilities of NTBC amounting to KD 16,255 thousand and KD 2,570 thousand, respectively, as assets classified held for sale, and liabilities directly associated with the assets classified as held for sale, respectively, in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations".

During the year ended as at 31 December 2017, the Group has sold its entire holding in Public Services Company K.S.C. (Closed), and also certain subsidiaries established for syndication purpose and classified as held for sale were partly syndicated.

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18 SUBSIDIARIES

18.1 Details of principal operating material subsidiaries

Name	*Country of registration*	*Interest in equity %*		*Principal activity*	*Financial statements reporting date*
		2017	*2016*		
Kuwait Turkish Participation Bank	Turkey	62	62	Islamic banking services	31 December 2017
Kuwait Finance House B.S.C.	Bahrain	100	100	Islamic banking services	31 December 2017
Kuwait Finance House (Malaysia) Berhad	Malaysia	100	100	Islamic banking services	31 December 2017
Saudi Kuwait Finance House S.S.C. (Closed)	Saudi Arabia	100	100	Islamic investment	31 December 2017
KFH Capital Investments Company K.S.C. (Closed)*	Kuwait	99.9	99.9	Islamic finance and investments	31 October 2017
KFH Private Equity Ltd	Cayman Islands	100	100	Islamic investments	31 December 2017
KFH Real Estate Company K.S.C. (Closed) *	Kuwait	99.9	99.9	Real estate development and leasing	31 October 2017
Al Enma'a Real Estate Company K.S.C.P.	Kuwait	56	56	Real estate, investment, trading and real estate management	31 October 2017
Development Enterprises Holding Company K.S.C. (Closed) *	Kuwait	99.9	99.9	Infrastructure and industrial investment	31 December 2017
Baitak Real Estate Investment Company S.S.C.	Saudi Arabia	100	100	Real estate development and investment	30 September 2017
International Turnkey Systems Company K.S.C. (Closed)	Kuwait	97	97	Computer maintenance, consultancy and software services	30 September 2017
Gulf International Automobile Trading Company K.S.C. (Closed)*	Kuwait	99.6	99.6	Trading, import and export of used cars	30 September 2017
E'amar	Cayman Islands	100	100	Islamic investments	31 December 2017
Al Salam Hospital K.S.C. (Closed)	Kuwait	76	76	Healthcare services	30 September 2017

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18 SUBSIDIARIES (continued)

18.1 Details of principal operating material subsidiaries (continued)

Name	*Country of registration*	*Interest in equity %*		*Principal activity*	*Financial statements reporting date*
		2017	*2016*		
Muthana GCC Islamic Banks Fund	Kuwait	91	93	Islamic equity investments	30 September 2017
Muthana Islamic Index Fund	Kuwait	30	64	Islamic equity investments	30 September 2017
Aref Investment Group K.S.C.(Closed)	Kuwait	53	53	Islamic investments	30 September 2017
Turkapital Holding B.S.C.(C)	Bahrain	51	51	Real estate, auto leasing and insurance	30 September 2017
KFH Financial Service Ltd.	Cayman Islands	100	100	Islamic real estate development and investments	31 December 2017
Public Service Company K.S.C. (Closed)	Kuwait	-	80	Management consultancy and services	30 September 2017

**Effective ownership percentage is 100% (2016: 100%).*

(a) During the current year, the Group sold its investment in Public Service Company K.S.C. (Closed) to a third party.

(b) During the current year, the Group sold part of its ownership interest in Muthana Islamic Index Fund and Muthana GCC Islamic Banks Fund. These disposals did not result in loss of control.

18.2 Material partly-owned subsidiary

Financial information of subsidiary that have material non-controlling interest is provided below:

Proportion of equity interest held by non-controlling interests:

	Country of incorporation & operation	*Non controlling interest percentage*	
		2017	*2016*
Kuwait Turkish Participation Bank	Turkey	**38%**	38%

The summarised financial information of the subsidiary is provided below. This information is based on amounts before intra Group eliminations and adjustments.

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18 SUBSIDIARIES (continued)

18.2 Material partly-owned subsidiary (continued)

Summarised consolidated statement of income for the year ended:

	KD 000's	
	2017	*2016*
Revenues	**373,898**	378,575
Expenses	**(315,552)**	(320,738)
Profit for the year	**58,346**	57,837
Attributable to non-controlling interests	**22,031**	21,839

Summarised consolidated statement of financial position as at:

	KD 000's	
	2017	*2016*
Total assets	**4,520,545**	4,221,015
Total liabilities	**(4,139,073)**	(3,858,618)
Total equity	**381,472**	362,397
Attributable to non-controlling interests	**144,044**	136,841

Summarised consolidated statement of cash flows for year ended:

	KD 000's	
	2017	*2016*
Operating	**(32,561)**	165,809
Investing	**(72,793)**	(139,326)
Financing	**4,520**	77,915
Net (decrease) increase in cash and cash equivalents	**(100,834)**	104,398

19 DEPOSITORS' ACCOUNTS

a) The depositors' accounts of the Bank comprise the following:

1) 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 Bank guarantees to pay the related balances on demand. Accordingly, these deposits are considered Qard Hasan from depositors to the Bank under Islamic Shari'a.

2) Investment deposits: These have fixed maturity as specified in the term of the contract and are automatically renewable for the same periods unless notified to the contrary in writing by the depositor. Investment savings accounts are valid for an unlimited period.

In all cases, the investment deposits receive a proportion of the profit as the board of directors of the Bank determines, or bear a share of loss based on the results of the financial year.

b) The fair values of depositors' accounts do not differ from their carrying book values.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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20 OTHER LIABILITIES

	2017	*2016*
	KD 000's	
Trade payables	**162,336**	198,702
Accrued expenses	**147,059**	120,549
Certified cheques	**48,613**	56,763
Due to customers for contract work	**29,877**	25,012
Maintenance and other reserve	**96,052**	80,839
Employees' end of service benefits*	**71,905**	52,994
Refundable deposits	**8,097**	7,149
Provision on non cash facilities (Note 10)	**46,341**	31,588
Other miscellaneous liabilities	**88,956**	71,055
	699,236	644,651

*During the year amendments to Kuwait labor law no. 6 of 2010 concerning labor in private sector were published in the official gazette affecting the employees short term and post employment benefits. Accordingly, the Group has recorded additional liability for employee's end of service benefits amounting to KD 17,618 thousand This amount has been recorded under staff costs in the consolidated statement of income.

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21 RESERVES

KD 000's

	Statutory reserve	*Voluntary reserve*	*Retained earnings*	*Treasury shares reserve*	*Fair value reserve*	*Foreign exchange translation reserve*	*Other reserves*	***Total***
Balance as at 1 January 2017	**255,564**	**255,564**	**107,099**	**6,735**	**25,728**	**(141,649)**	**(34,389)**	**474,652**
Profit for the year	-	-	**184,155**	-	-	-	-	**184,155**
Other comprehensive loss	-	-	-	-	**(6,577)**	**(22,173)**	-	**(28,750)**
Total comprehensive income (loss)	-	-	**184,155**	-	**(6,577)**	**(22,173)**	-	**155,405**
Zakat paid	-	-	**(9,682)**	-	-	-	-	**(9,682)**
Transfer to reserves	**19,277**	**19,277**	**(38,554)**	-	-	-	-	-
Proposed issuance of bonus shares (Note 23)	-	-	**(57,657)**	-	-	-	-	**(57,657)**
Proposed cash dividends (Note 23)	-	-	**(96,645)**	-	-	-	-	**(96,645)**
Change of ownership interest without loss of control (Note 18)	-	-	-	-	-	-	**27**	**27**
Net movement in treasury shares	-	-	-	**1**	-	-	-	**1**
Balance as at 31 December 2017	**274,841**	**274,841**	**88,716**	**6,736**	**19,151**	**(163,822)**	**(34,362)**	**466,101**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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21 RESERVES (continued)

KD 000's

	Statutory reserve	*Voluntary reserve*	*Retained earnings*	*Treasury shares reserve*	*Fair value reserve*	*Foreign exchange translation reserve*	*Other reserves*	***Total***
Balance as at 1 January 2016	238,252	238,252	124,579	7,084	17,729	(97,233)	(23,596)	505,067
Profit for the year	-	-	165,228	-	-	-	-	165,228
Other comprehensive income (loss)	-	-	-	-	7,999	(44,416)	-	(36,417)
Total comprehensive income (loss)	-	-	165,228	-	7,999	(44,416)	-	128,811
Zakat paid	-	-	(7,914)	-	-	-	-	(7,914)
Transfer to reserves	17,312	17,312	(34,624)	-	-	-	-	-
Proposed issuance of bonus shares (Note 23)	-	-	(52,415)	-	-	-	-	(52,415)
Proposed cash dividends (Note 23)	-	-	(87,755)	-	-	-	-	(87,755)
Acquisition of non-controlling interests	-	-	-	-	-	-	(10,793)	(10,793)
Net movement in treasury shares	-	-	-	(349)	-	-	-	(349)
Balance as at 31 December 2016	255,564	255,564	107,099	6,735	25,728	(141,649)	(34,389)	474,652

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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21 RESERVES (continued)

In the ordinary and extraordinary general assembly meeting of the shareholders of the Bank held on 14 March 2005, the ordinary general assembly resolved to suspend transfers of profit for the year attributable to the shareholders of the Bank to statutory reserve in excess of 10%. In accordance with the articles of association of the Bank, the ordinary general assembly of the shareholders of the Bank can approve an increase in the transfer of 10% each of the profit for the year attributable to the shareholders of the Bank to statutory and voluntary reserves, as appropriate, if proposed by the board of directors of the Bank.

Only that part of the statutory reserve in excess of 50% of paid-up share capital is freely distributable and usable at the discretion of the ordinary general assembly in ways that may be deemed beneficial to the Bank. Distribution of the balance of the statutory reserve is limited to the amount required to enable the payment of a dividend of 5% of paid-up share capital to be made in years when accumulated profits are not sufficient for the payment of a dividend of that amount.

The ordinary general assembly meeting of the shareholders of the Bank held on 16 March 2015 approved to restrict the balance of statutory reserve and voluntary reserve up to 50% of the paid-up share capital and transfer amounts in excess of 50% of the paid-up capital from statutory reserve and voluntary reserve to retained earnings.

Voluntary reserve is available to be distributed to shareholders at the discretion of the general assembly in ways that may be deemed beneficial to the Bank, except for the amount of KD 45,063 thousand (2016: KD 48,824 thousand) which is equivalent to the cost of purchasing treasury shares, and is not available for distribution throughout the holding period of the treasury shares (Note 22).

The share premium balance is not available for distribution.

Fair value reserve, foreign currency translation reserve and other reserve are attributable to both shareholders and deposit account holders.

22 SHARE CAPITAL AND TREASURY SHARES

The ordinary general assembly of the shareholders of the Bank held on 20 March 2017 approved 10% bonus shares on outstanding shares amounting to KD 52,415 thousand for the year ended 31 December 2016 (Note 23).

Share capital

	KD 000's	
	2017	*2016*
Authorized, issued and fully paid in cash and bonus shares:		
5,765,693,556 (2016: 5,241,539,597) shares of 100 fils each	**576,569**	524,154

The movement in ordinary shares in issue during the year was as follows:

	2017	*2016*
Number of shares in issue as at 1 January	**5,241,539,597**	4,765,035,998
Bonus shares issued	**524,153,959**	476,503,599
Number of shares in issue 31 December	**5,765,693,556**	5,241,539,597

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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22 SHARE CAPITAL AND TREASURY SHARES (continued)

Treasury shares and treasury share reserve.
The Group held the following treasury shares at the year-end:

	2017	*2016*
Number of treasury shares	**80,699,163**	79,473,239
Treasury shares as a percentage of total shares in issue	**1.40%**	1.52%
Cost of treasury shares (KD)	**45,062,788**	48,823,661
Market value of treasury shares (KD)	**46,482,718**	42,915,549

The balance in the treasury share reserve account is not available for distribution.

An amount of KD 45,063 thousand (31 December 2016: KD 48,824 thousand) equivalent to the cost of purchase of the treasury shares have been earmarked as non-distributable from voluntary reserve throughout the holding period of treasury shares.

The weighted average market price of the Bank's shares for the year ended 31 December 2017 was 566 (2016: 487) fils per share.

23 PROPOSED CASH DIVIDENDS, BONUS SHARES, AND DIRECTORS' FEES

The Board of Directors of the Bank has proposed a cash dividend of 17% for the year ended 31 December 2017 (2016: 17%) and issuance of bonus shares of 10% (2016: 10%) of paid up share capital as follows:

				KD 000's
	2017		*2016*	
		Total		*Total*
Proposed cash dividends (per share)	17 fils	**96,645**	17 fils	87,755
Proposed issuance of bonus shares (per 100 shares)	10 shares	**57,657**	10 shares	52,415

This proposal is subject to the approval of the ordinary general assembly of the shareholders of the Bank and completion of legal formalities. Proposed dividends are shown separately within equity.

The Board of Directors of the Bank has proposed Directors' fees of KD 878 thousand (2016: KD 772 thousand), (Note 26) are within the amount permissible under local regulations and are subject to approval by the annual general assembly of the shareholders of the Bank.

24 CONTINGENCIES AND CAPITAL COMMITMENTS

At the reporting date, there were outstanding contingencies and commitments entered into in the ordinary course of business in respect of the following:

		KD 000's
	2017	*2016*
Acceptances and letters of credit	**189,520**	146,155
Letter of Guarantees	**1,897,510**	1,675,716
Contingencies	**2,087,030**	1,821,871

		KD 000's
	2017	*2016*
Capital commitments	**408,254**	399,058

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25 CURRENCY SWAPS, PROFIT RATE SWAPS, FORWARD FOREIGN EXCHANGE AND FORWARD COMMODITY CONTRACTS ("ISLAMIC DERIVATIVE FINANCIAL INSTRUMENTS")

In the ordinary course of business the Group enters into currency swaps, profit rate swaps, forward foreign exchange and forward commodity contracts ("Islamic derivative financial instruments") to mitigate foreign currency and profit rate risk. Currency swaps and forward commodity contracts are based on Wa'ad (promise) structure between two parties to buy a specified Shari'a compliant commodity at an agreed price on the relevant date in future. It is a conditional promise to purchase a commodity through unilateral purchase undertaking. Currency swap structure comprises profit rate swap and currency swap. For profit rate swaps, counterparties generally exchange fixed and floating rate profit payments based on a notional value in a single currency. For currency swaps, fixed or floating payments as well as notional amounts are exchanged in different currencies.

The currency swaps, profit rate swaps, forward foreign exchange and forward commodity contracts are being used to hedge the foreign currency risk of the firm commitments.

Embedded swaps and profit rate contracts are balances with banks and financial institutions with rates of return tied to changes in value of precious metals.

The table below shows the positive and negative fair values of these instruments, which are equivalent to the market values, together with the notional amounts. The notional amount is the amount of currency swap instruments' underlying asset, reference rate or index and is the basis upon which changes in the value of these instruments are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

			KD 000's
	Positive fair value	***Negative fair value***	***Notional amount***
31 December 2017			
Forward contracts	**1,369**	**1,890**	**145,037**
Profit rate swaps	**114**	**-**	**12,348**
Currency swaps	**817**	**10,786**	**503,914**
Embedded precious metals	**-**	**121**	**115,373**
	2,300	**12,797**	**776,672**

			KD 000's
	Positive fair value	*Negative fair value*	*Notional amount*
31 December 2016			
Forward contracts	2,017	1,540	155,878
Profit rate swaps	330	-	13,591
Currency swaps	7,665	21,037	719,847
Embedded precious metals	-	62	90,872
	10,012	22,639	980,188

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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25 CURRENCY SWAPS, PROFIT RATE SWAPS, FORWARD FOREIGN EXCHANGE AND FORWARD COMMODITY CONTRACTS ("ISLAMIC DERIVATIVE FINANCIAL INSTRUMENTS") (continued)

In respect of currency swaps, profit rate swaps, forward foreign exchange and forward commodity contracts the notional amount represents the gross cash flows. However, the amounts may be settled net. The following table shows the net cash flows:

				KD 000's
	Notional amount	*Within 3 months*	*3 to 12 months*	*More than 12 months*
31 December 2017				
Cash inflows	**776,672**	**424,970**	**239,848**	**111,854**
Cash outflows	**(673,730)**	**(427,349)**	**(124,712)**	**(121,669)**
Net cash flows	**102,942**	**(2,379)**	**115,136**	**(9,815)**
31 December 2016				
Cash inflows	980,188	693,216	218,014	68,958
Cash outflows	(745,823)	(512,285)	(133,450)	(100,088)
Net cash flows	234,365	180,931	84,564	(31,130)

26 RELATED PARTY TRANSACTIONS

Certain related parties (Major shareholders, directors and executive employees, officers of the Group, their families, associated companies joint ventures and companies of which they are the principal owners) are depositors and financing facilities, 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 related parties included in the consolidated statement of income are as follows:

					KD 000's	
					Total	
	Major shareholders	***Associates & joint ventures***	***Board Members and executive Officers***	***Other related party***	***2017***	*2016*
Financing income	**-**	**5,143**	**149**	**284**	**5,576**	4,217
Fee and commission income	**-**	**1,063**	**7**	**80**	**1,150**	262
Finance costs and distribution to depositors	**23,694**	**687**	**15**	**1,264**	**25,660**	25,946

Balances with related parties included in the consolidated statement of financial position are as follows:

					KD 000's	
					Total	
	Major shareholders	***Associates & joint ventures***	***Board Members and executive Officers***	***Other related party***	***2017***	*2016*
Financing receivables	**-**	**226,088**	**4,261**	**10,376**	**240,725**	134,413
Due to banks and financial institutions	**1,360,235**	**27,165**	**-**	**-**	**1,387,400**	1,335,174
Depositors' accounts	**-**	**54,066**	**7,028**	**27,601**	**88,695**	98,435
Contingencies and capital commitments	**486**	**8,875**	**1**	**3,111**	**12,473**	14,801
Investment managed by related party	**-**	**-**	**-**	**33,281**	**33,281**	34,108

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26 RELATED PARTY TRANSACTIONS (continued)

Details of the interests of Board Members and Executive Officers are as follows:

	The number of Board Members or Executive Officers		*The number of related parties (Relatives of board members or executive officers)*		*KD 000's*	
	2017	*2016*	***2017***	*2016*	***2017***	*2016*
Board Members						
Finance facilities	**26**	40	**13**	20	**2,466**	16,033
Credit cards	**16**	15	**4**	8	**52**	40
Deposits	**68**	78	**97**	145	**20,345**	10,021
Collateral against financing facilities	**7**	9	**3**	3	**3,559**	15,190
Executive officers						
Finance facilities	**46**	45	**12**	11	**2,577**	3,360
Credit cards	**35**	39	**6**	7	**170**	166
Deposits	**79**	83	**84**	79	**7,120**	9,171
Collateral against financing facilities	**12**	14	**4**	5	**5,515**	7,549

The transactions included in the consolidated statement of income are as follows:

	KD 000's	
	Total	
	2017	*2016*
Board Members		
Finance income	**62**	132
Executive officers		
Finance income	**87**	125
	149	257

Salaries, allowances and bonuses of key management personnel and remuneration of chairman and board members are as follows:

	KD 000's	
	Total	
	2017	*2016*
Salaries, allowances and bonuses of key management personnel	**18,260**	18,113
Termination benefits of key management personnel	**1,292**	1,113
Remuneration of chairman and board members*	**1,435**	1,536
	20,987	20,762

** Remuneration of chairman and board members includes special compensation for additional contributions related to participation in the executive committees in accordance with board of directors' decisions.*

The remuneration of chairman and board members are subject to the approval of the Annual General Assembly.

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27 SEGMENTAL ANALYSIS

Primary segment information
For management purposes, the Group is organized into four major business segments. The principal activities and services under these segments are as follows:

Treasury: Liquidity management, murabaha investments, investment in Sukuk, exchange of deposits with banks and financial institutions and international banking relationships.

Retail and Private Banking: Consumer banking provides a diversified range of products and services to individual. Private banking provides comprehensive range of customised and innovative banking services to high net worth individuals

Corporates Banking: Providing a range of banking services and investment products to corporate, providing commodity and real estate murabaha finance, local leasing, wakala and istisna'a facilities.

Investment: Managing direct equity and real estate investments, non-banking Group entities, associates and Joint ventures.

					KD 000's
31 December 2017	***Treasury***	***Retail and private Banking***	***Corporate Banking***	***Investment***	***Total***
Total assets	**4,322,393**	**5,602,145**	**5,017,819**	**2,415,624**	**17,357,981**
Total liabilities	**3,182,227**	**9,193,523**	**2,128,887**	**737,222**	**15,241,859**
Operating income	**28,103**	**295,217**	**235,691**	**154,269**	**713,280**
Provisions and impairment	**(4,649)**	**(15,954)**	**(82,205)**	**(60,603)**	**(163,411)**
Profit for the year	**12,404**	**110,394**	**80,231**	**11,126**	**214,155**

					KD 000's
31 December 2016	*Treasury*	*Retail and private Banking*	*Corporate Banking*	*Investment*	*Total*
Total assets	4,481,909	5,093,962	4,204,922	2,718,560	16,499,353
Total liabilities	3,143,975	8,706,278	1,871,147	739,128	14,460,528
Operating income	49,702	267,097	200,356	142,495	659,650
Provisions and impairment	(88)	(11,182)	(60,935)	(84,993)	(157,198)
Profit (loss) for the year	38,361	105,405	57,868	(39,695)	161,939

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27 SEGMENTAL ANALYSIS (continued)

Secondary segment information

The Group operates in different geographical areas. A geographical analysis is as follows:

				KD 000's
	Assets		*Contingencies and capital commitments*	
	2017	*2016*	***2017***	*2016*
Geographical areas:				
Middle East	**11,622,596**	11,101,762	**1,302,979**	1,079,416
Europe	**4,591,288**	4,220,156	**1,162,258**	1,103,123
Other	**1,144,097**	1,177,435	**30,047**	38,390
	17,357,981	16,499,353	**2,495,284**	2,220,929

						KD 000's
	Local		*International*		*Total*	
	2017	*2016*	***2017***	*2016*	***2017***	*2016*
Operating income	**316,120**	270,563	**397,160**	389,087	**713,280**	659,650
Profit for the year	**83,177**	63,497	**130,978**	98,442	**214,155**	161,939

28 RISK MANAGEMENT

Risk management is an integral part of Group decision-making processes. It is implemented through a governance process that emphasizes on independent risk assessment, control and monitoring, overseen directly by the Board and senior management.

KFH continues to upgrade its risk management capabilities in the light of developments in the business, banking and market regulations and risk management best practices. KFH operates a “three lines of defence” system for managing risk:

The first line of defence recognizes that risks are raised by the business units and within their business. In KFH, all employees (credit officers, dealers, operations, etc.) are required to ensure the effective management of risks within their organizational responsibilities.

The second line of defence comprises the Risk Management Department and the Financial Control Department, which are responsible for ensuring that the risks are managed in accordance within the stated risk appetite.

The third line of defence is the independent assurance provided by the Internal Audit function. Its role is defined and overseen by the Audit Committee. The findings from the Internal Audit audits are reported to all relevant management and governance bodies. The Internal Audit function provides assurance that the overall system of control effectiveness is working as required within the risk management framework.

The risk management department is responsible for managing and monitoring risk exposures. It also, measures risk using risk models and presents reports to the Board Risk Committee. The models use probabilities based on historical experiences adjusted to reflect the current economic environment.

Monitoring and controlling risks are managed through limits set by the Board of Directors. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Bank’s Board of Directors is willing to accept.

Risk mitigation
As part of its overall risk management, the Group uses currency swaps, profit rate swaps, forward foreign exchange and forward commodity contracts (within accepted Shari’a products) to manage exposures and emerging risks resulting from changes in yields, foreign currencies and, equity risks. The Group actively uses collateral to reduce its credit risks.

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28 RISK MANAGEMENT (continued)

Excessive risk concentration
In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. Selective hedging (Shari'a compliance) is used within the Bank to manage risk concentrations at both the relationship and industry levels.

In addition, each of the banking subsidiaries of the group has similar risk management structures, policies and procedures as overseen by the Bank's Board of Directors.

29 CREDIT RISK

Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Group has process to review credit quality to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by using credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Group to assess the potential loss as a result of the risks to which is exposed to and take corrective actions.

Credit-related commitments risk
The Group makes available to its customers guarantees, which may require that the Group make payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit. They expose the Group to similar risks to finance facilities and these are mitigated by the same control processes and policies.

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 Bank' rating policy. The attributable risk ratings are assessed and updated regularly.

Maximum exposure to credit risk without taking account of any collateral
The table below shows the maximum exposure to credit risk for the components of the consolidated statement of financial position. The maximum exposure is shown (before impairment, net of deferred and suspended profit), before the effect of mitigation through the use of master netting and collateral agreements.

		KD 000' s	
	Notes	***2017***	*2016*
Balances with banks and financial institutions	8	**1,003,866**	1,242,950
Short term murabaha	9	**2,925,329**	2,877,241
Financing receivables	10	**9,660,883**	8,701,555
Investment in Sukuk		**1,429,963**	1,100,822
Trade and other receivables		**305,390**	354,041
Total		**15,325,431**	14,276,609
Contingencies	24	**2,087,030**	1,821,871
Commitments	24	**408,254**	399,058
Total		**2,495,284**	2,220,929
Total credit risk exposure		**17,820,715**	16,497,538

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 arise in the future as a result of changes in values.

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29 CREDIT RISK (continued)

Risk concentrations of the maximum exposure to credit risk
Concentration of risk is managed by counterparty by geographical region and by industry sector. The maximum credit exposure to a single counterparty as of 31 December 2017 was KD 275,509 thousand (2016: KD 181,019 thousand) before taking account of any collaterals.

The Group's financial assets, before taking into account any collateral held can be analysed by the following geographical regions:

	KD 000's	
	2017	*2016*
Middle East	**10,042,667**	9,030,553
Europe	**4,425,614**	4,115,592
Other	**857,150**	1,130,464
	15,325,431	14,276,609

An industry sector analysis of the Group's financial assets, before taking into account collateral held is as follows:

	KD 000's	
	2017	*2016*
Trading and manufacturing	**4,497,392**	4,279,138
Banks and financial institutions	**5,409,920**	5,216,544
Construction and real estate	**2,897,215**	2,636,527
Other	**2,520,904**	2,144,400
	15,325,431	14,276,609

Credit quality per class of financial assets
The table below shows the credit quality by class of financial assets before impairment for consolidated statement of financial position lines:

				KD 000's
	Neither past due nor impaired			
	High grade	*Standard grade*	*Past due or impaired*	*Total*
31 December 2017				
Balances with banks and financial institutions	**1,003,866**	**-**	**-**	**1,003,866**
Short-term murabaha	**2,925,329**	**-**	**-**	**2,925,329**
Financing receivables (Note 10)	**7,853,216**	**1,029,674**	**777,993**	**9,660,883**
Investment in Sukuk	**1,274,462**	**154,193**	**1,308**	**1,429,963**
Trade and other receivables	**305,390**	**-**	**-**	**305,390**
	13,362,263	**1,183,867**	**779,301**	**15,325,431**

				KD 000's
	Neither past due nor impaired			
	High grade	*Standard grade*	*Past due or impaired*	*Total*
31 December 2016				
Balances with banks and financial institutions	1,242,950	-	-	1,242,950
Short-term murabaha	2,877,241	-	-	2,877,241
Financing receivables (Note 10)	6,826,939	1,148,301	726,315	8,701,555
Investment in Sukuk	1,025,359	74,244	1,219	1,100,822
Trade and other receivables	354,041	-	-	354,041
	12,326,530	1,222,545	727,534	14,276,609

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29 CREDIT RISK (continued)

Aging analysis of past due but not impaired finance facilities by class of financial assets:

	KD 000's			
	Less than 30 days	***31 to 60 days***	***61 to 90 days***	***Total***
31 December 2017				
Financing receivables	**339,207**	**102,284**	**60,278**	**501,769**
31 December 2016				
Financing receivables	295,073	114,153	65,053	474,279

Rescheduled facilities (before impairment, net of deferred and suspended profit) amounted to KD 138,361 thousand (2016: KD 213,280 thousand). These represent financing receivable which are not impaired, however as required by regulations, group has recorded specific provision against these facilities.

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 Bank' rating policy. The attributable risk ratings are assessed and updated regularly.

Collateral

The amount and type of collateral 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.

The main types of collateral accepted include real estate, securities, cash and bank guarantees. The Group also obtains guarantees from parent companies for finance facilities extended to their subsidiaries.

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 Group holds relating to past due or impaired finance facilities as at 31 December 2017 was KD 285,220 thousand (2016: KD 284,864 thousand). The collateral consists of cash, securities, sukook, letters of guarantee and real estate assets.

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30 LIQUIDITY RISK

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they due under normal and stress circumstances. To limit this risk, management arranges diversified funding sources in addition to its core deposit base while manages assets and monitors future cash flows with liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high-grade collateral, which could be used to secure additional funding if required.

In addition, the Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank also has committed lines of credit that it can access to meet liquidity needs.

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank.

The table below summarizes the maturity profile of the Group's assets and liabilities. The maturity profile is monitored by management to ensure adequate liquidity is maintained. The maturity profile of the assets and liabilities at the year end are based on contractual payment arrangement and planned exit dates.

The maturity profile of assets and undiscounted liabilities at 31 December 2017 is as follows:

				KD 000's
	Up to 3 months	*3 to 12 months*	*After one year*	***Total***
Assets				
Cash and balances with banks	**1,226,319**	**2,557**	**33,580**	**1,262,456**
Short-term murabaha	**1,734,004**	**1,191,325**	**-**	**2,925,329**
Financing receivables	**2,258,152**	**2,328,692**	**4,629,631**	**9,216,475**
Investment in Sukuk	**184,566**	**57,750**	**1,186,339**	**1,428,655**
Trading properties	**9,172**	**21,001**	**130,964**	**161,137**
Investments	**16,985**	**3,631**	**283,677**	**304,293**
Investment in associates and joint ventures	**-**	**-**	**463,797**	**463,797**
Investment properties	**-**	**-**	**554,321**	**554,321**
Other assets	**155,113**	**64,051**	**245,394**	**464,558**
Intangible assets and goodwill	**-**	**-**	**38,659**	**38,659**
Property and equipment	**-**	**-**	**214,001**	**214,001**
Assets classified as held for sale	**-**	**324,300**	**-**	**324,300**
	5,584,311	**3,993,307**	**7,780,363**	**17,357,981**
Liabilities				
Due to banks and financial institutions	**1,383,190**	**626,252**	**230,481**	**2,239,923**
Sukuk payables	**39,803**	**50,155**	**428,120**	**518,078**
Depositors' accounts	**7,395,232**	**572,546**	**3,628,955**	**11,596,733**
Other liabilities	**137,128**	**97,298**	**464,810**	**699,236**
Liabilities directly associated with assets classified as held for sale	**-**	**187,889**	**-**	**187,889**
	8,955,353	**1,534,140**	**4,752,366**	**15,241,859**

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30 LIQUIDITY RISK (continued)

The maturity profile of assets and undiscounted liabilities at 31 December 2016 is as follows:

	Up to 3 months	*3 to 12 months*	*After one year*	***Total***
				KD 000's
Assets				
Cash and balances with banks	1,459,959	4,772	29,926	1,494,657
Short-term murabaha	1,930,069	947,172	-	2,877,241
Financing receivables	1,875,653	2,189,756	4,110,380	8,175,789
Investment in Sukuk	436,593	15,454	647,556	1,099,603
Trading properties	28,836	17,657	139,848	186,341
Investments	17,261	40,886	298,374	356,521
Investments in associates and joint ventures	-	-	469,468	469,468
Investment properties	-	-	590,801	590,801
Other assets	225,167	69,504	253,981	548,652
Intangible assets and goodwill	-	-	39,175	39,175
Property and equipment	-	-	216,212	216,212
Assets classified as held for sale	7,918	436,975	-	444,893
	5,981,456	3,722,176	6,795,721	16,499,353
Liabilities				
Due to banks and financial institutions	1,607,830	434,134	356,626	2,398,590
Sukuk payables	111,527	136,478	225,056	473,061
Depositors' accounts	7,016,506	482,009	3,218,219	10,716,734
Other liabilities	129,066	104,225	411,360	644,651
Liabilities directly associated with assets classified as held for sale	3,076	224,416	-	227,492
	8,868,005	1,381,262	4,211,261	14,460,528

The table below shows the contractual expiry by maturity of the Bank's contingencies and commitments:

	Up to 3 months	*3 to 12 months*	*Over 1 year*	*Total*
				KD 000's
2017				
Contingencies (Note 24)	**731,605**	**377,729**	**977,696**	**2,087,030**
Capital commitments (Note 24)	**323,141**	**67,032**	**18,081**	**408,254**
Total	**1,054,746**	**444,761**	**995,777**	**2,495,284**

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30 LIQUIDITY RISK (continued)

	Up to 3 months	*3 to 12 months*	*Over 1 year*	*Total*
				KD 000's
2016				
Contingencies (Note 24)	629,735	348,811	843,325	1,821,871
Capital commitments (Note 24)	354,995	12,009	32,054	399,058
Total	984,730	360,820	875,379	2,220,929

The Bank expects that not all of the contingencies or capital commitments will be drawn before expiry of the commitments.

31 MARKET RISK

Market risk is defined as the risk that arises from the Banks' investments transactions, including investments in equity shares (both listed and unlisted), Sukuk, real estate and others. These risks are classified into three main areas through which the market risk is being measured and managed, as it directly impact the performance of the Bank's investment portfolio, they are as follows:

Non-trading market risk

Profit rate risk
In accordance with the provisions of Islamic Shari'a, the Bank generates assets and liabilities that have cash inflows and outflows or fair values whose profitability and performance are evaluated through the sensitivity of profit rates fluctuation and how to manage the risks arises from those exposures as to achieve the highest expected profits, which contributes to the profits distributed to customers and shareholders of the bank.

Currency risk
This is the risk of incurring losses due to changes in currency exchange rates which affects both the banking book (including structural positions arising from cross-border investments) and trading book

Currency risk is managed based on limits determined by the Bank's Board of Directors and a continuous assessment of the Group open positions, and current and expected exchange rate movements. The Group, wherever necessary, matches currency exposures inherent in certain assets with liabilities in the same or a correlated currency. The Group also uses currency swap and forward foreign exchange contracts (within Shari'a complaint products) to mitigate foreign currency risk.

The tables below indicate the currencies to which the Bank had significant exposure at 31 December 2017 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Kuwaiti Dinar, with all other variables held constant on the profit and the fair value reserve (due to the change in fair value of financial assets available for sale).

	31 December 2017			*31 December 2016*		***KD 000's***
Currency	***Change in currency rate %***	***Effect on profit***	***Effect on fair value reserve***	*Change in currency rate %*	*Effect on profit*	*Effect on fair value reserve*
U.S. Dollars	+1	**890**	**479**	+1	(954)	615
Bahraini Dinar	+1	**428**	**19**	+1	2,654	10

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31 MARKET RISK (continued)

Non-trading market risk (continued)

Price risk
This is the risk arising from the changes in the market value of investments – equity (trading and banking book including strategic investments), Sukuk, and real estate.

The effect on fair value reserve (as a result of a change in the fair value of financial assets available for sale at 31 December) due to a reasonably possible change in equity indices, with all other variables held constant is as follows:

				KD 000's
	2017		*2016*	
	Change in equity price %	***Effect on fair value reserve***	*Change in equity price %*	*Effect on fair value reserve*
Market indices				
Kuwait Stock Exchange	**+1**	**910**	+1	874
Other GCC indices	**+1**	**74**	+1	71

Operational risk
Operational risk is the risk of loss arising from systems failure, human error, processes or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage the risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

The Bank has a set of policies and procedures, which is approved by its Board of Directors and applied to identify, assess and supervise operational risk in addition to other types of risks relating to the banking and financial activities of the Bank. Operational risk managed by the Operational Risk Management, which reviews policies, procedures, products, services and support business lines in managing and monitoring operational risks as part of overall Bank-wide risk management.

Operational Risk Management of the Bank is in line with the CBK instructions concerning the general guidelines for internal controls and the sound practices for managing and monitoring operational risks in Group.

Country risk
Country risk is the risk that incidents within a country could have an adverse effect on the Bank directly in impairing the value of the Group or indirectly through an obligor’s inability to meet its obligations to the Bank. Generally, these occurrences relate, but are not limited to: sovereign events such as defaults or restructuring; political events such as contested elections; restrictions on currency movements; non–market currency convertibility; regional conflicts; economic contagion from other events such as sovereign default issues or regional turmoil; banking and currency crisis; and natural disasters.

32 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 maximize shareholders’ value.

The Group actively manages its capital base in order to cover risks inherent in the business. The adequacy of the Group’s capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision (BIS rules/ratios) and adopted by the Central Bank of Kuwait in supervising the Group.

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32 CAPITAL MANAGEMENT (continued)

The Group's regulatory capital and capital adequacy ratios are calculated in accordance with CBK circular number 2/RB, RBA/336/2014 dated 24 June 2014 (Basel III) are shown below:

		KD 000's
Capital adequacy	***2017***	*2016*
Risk Weighted Assets	**12,073,649**	11,408,921
Capital required	**1,811,047**	1,711,338
Capital available		
Tier 1 capital	**1,932,356**	1,853,574
Tier 2 capital	**212,337**	186,792
Total capital	**2,144,693**	2,040,366
Tier 1 capital adequacy ratio	**16.00%**	16.25%
Total capital adequacy ratio	**17.76%**	17.88%

The Group's financial leverage ratio for the year ended 31 December 2017 is calculated in accordance with CBK circular number 2/RBA/343/2014 dated 21 October 2014 is shown below:

		KD 000's
	2017	*2016*
Tier 1 capital	**1,932,356**	1,853,574
Total exposure	**19,344,352**	18,554,168
Financial leverage ratio	**9.99%**	9.99%

33 MANAGEMENT OF PURCHASED DEBTS

In accordance with Decree 32/92 and Law 41/93 in respect of the financial and banking sector, the Bank is required to manage the purchased debts without remuneration in conformity with the terms of the debt purchase agreement.

34 FIDUCIARY ASSETS

The aggregate value of assets held in a trust or fiduciary capacity by the Group at 31 December 2017 amounted to KD 1,235,457 thousand (2016: KD 1,103,087 thousand).

Fees and commission income include fees of KD 4,917 thousand (2016: KD 2,504 thousand) arising from trust and fiduciary activities.

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35 FAIR VALUES

The Group uses the following hierarchy for determining and disclosing the fair value by valuation technique:

Level 1: quoted (unadjusted) prices in active markets.
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 that are not based on observable market data.

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities as at 31 December 2017.

				KD 000's
Financial assets measured at fair value:	*(Level 1)*	*(Level 2)*	*(Level 3)*	*Total*
Venture capital at fair value through statement of income (Note 11)	**-**	**39,648**	**-**	**39,648**
Financial assets available for sale (Note 11)	**81,692**	**57,986**	**28,465**	**168,143**
Investment in Sukuk	**1,132,621**	**-**	**296,034**	**1,428,655**
Derivative financial assets:				
Forward contracts	**-**	**1,369**	**-**	**1,369**
Profit rate swaps	**-**	**114**	**-**	**114**
Currency swaps	**-**	**817**	**-**	**817**
Non-financial assets:				
Investment properties	**-**	**685,407**	**-**	**685,407**
	1,214,313	**785,341**	**324,499**	**2,324,153**

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				KD 000's
Financial liabilities measured at fair value:	*(Level 1)*	*(Level 2)*	*(Level 3)*	*Total*
Derivative financial liabilities:				
Forward contracts	**-**	**1,890**	**-**	**1,890**
Currency swaps	**-**	**10,786**	**-**	**10,786**
Embedded precious metals	**-**	**121**	**-**	**121**
	-	**12,797**	**-**	**12,797**

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities as at 31 December 2016.

				KD 000's
Financial assets measured at fair value:	*(Level 1)*	*(Level 2)*	*(Level 3)*	*Total*
Venture capital at fair value through statement of income (Note 11)	-	58,230	-	58,230
Financial assets available for sale (Note 11)	99,188	48,216	26,440	173,844
Investment in Sukuk	768,536	-	331,067	1,099,603
Derivative financial assets:				
Forward contracts	-	2,017	-	2,017
Profit rate swaps	-	330	-	330
Currency swaps	-	7,665	-	7,665
Non-financial assets:				
Investment properties	-	723,028	-	723,028
	867,724	839,486	357,507	2,064,717

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35 FAIR VALUES (continued)

				KD 000's
Financial liabilities measured at fair value:	***(Level 1)***	***(Level 2)***	***(Level 3)***	***Total***
Derivative financial liabilities:				
Forward contracts	-	1,540	-	1,540
Currency swaps	-	21,037	-	21,037
Embedded precious metals	-	62	-	62
	-	22,639	-	22,639

Investments classified under level 1 are valued based on the quoted bid price. Investments classified under level 2 are valued based on the reported NAVs.

Level 3 investments included unquoted sukook of KD 296,034 thousand (2016: KD 331,067 thousand) and unquoted equity investments of KD 28,465 thousand (2016: KD 26,440 thousand). Sukook included in this category represent sukook issued by sovereign entities, financial institutions and corporates. The fair values of unquoted sukook are estimated using discounted cash flow method using discount rate (ranging from 2.5% to 7.4%). Unquoted equity investments are fair valued using valuation technique that is appropriate in the circumstances. Valuation techniques include discounted cash flow models, observable market information of comparable companies, recent transaction information and net asset values. Significant unobservable inputs used in valuation techniques mainly include discount rate, terminal growth rate, revenue and profit estimates. The impact on the consolidated statement of financial position or the consolidated statement of income or the consolidated statement of changes in equity would be immaterial if the relevant risk variables used for fair value estimates to fair value the unquoted equity investments were altered by 5%.

Instruments disclosed in note 25 are valued by discounting all future expected cash-flows using directly observable and quoted rate curves and spot/forward FX rates from recognised market sources (i.e. Reuters, Bloomberg, FinCAD, etc).

Investment properties have been valued based on valuations by valuers who hold a recognised and relevant professional qualification and have recent experience in the location and category of the investment properties being valued. The valuation reflects market conditions at the reporting date.

All investment properties are valued using observable market inputs. Market comparable approach is used for all investment properties, where market price per square meter and annual income are significant inputs to the valuation.

During the year ended 31 December 2017, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

The following table below shows a reconciliation of the opening and the closing amount of level 3 financial assets available for sale:

		KD 000's
	2017	*2016*
As at 1 January	**357,507**	266,385
Re-measurement recognised in other comprehensive income	**1,369**	1,613
Purchases, net	**(34,377)**	89,509
As at 31 December	**324,499**	357,507

تم بحمد الله

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