

**KUWAIT FINANCE HOUSE K.S.C.P. AND
SUBSIDIARIES**

**INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION (UNAUDITED)**

30 SEPTEMBER 2016

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)

For the period ended 30 September 2016

| | Notes | <i>KD 000's</i> | | | |
|--|-------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| | | <i>Three months ended</i> | | <i>Nine months ended</i> | |
| | | <i>30 September</i> 2016 | <i>30 September</i> 2015 | <i>30 September</i> 2016 | <i>30 September</i> 2015 |
| CONTINUING OPERATIONS | | | | | |
| Financing income | | 199,136 | 176,645 | 535,822 | 513,667 |
| Finance cost and estimated distribution to depositors | 3 | (78,654) | (65,997) | (210,113) | (195,154) |
| Net finance income | | 120,482 | 110,648 | 325,709 | 318,513 |
| Investment income | | 14,435 | 9,933 | 45,812 | 30,077 |
| Fees and commission income | | 22,701 | 21,325 | 67,402 | 61,471 |
| Net gain from foreign currencies | | 5,009 | 11,362 | 14,884 | 21,674 |
| Other income | | 7,131 | 11,178 | 37,716 | 40,830 |
| TOTAL OPERATING INCOME | | 169,758 | 164,446 | 491,523 | 472,565 |
| EXPENSES | | | | | |
| Staff costs | | (42,556) | (40,133) | (133,275) | (127,217) |
| General and administrative expenses | | (19,484) | (20,161) | (64,576) | (60,331) |
| Depreciation and amortization | | (9,818) | (19,245) | (29,568) | (54,754) |
| TOTAL EXPENSES | | (71,858) | (79,539) | (227,419) | (242,302) |
| Net operating income from continuing operations | | 97,900 | 84,907 | 264,104 | 230,263 |
| Provisions and impairment | | (34,619) | (28,306) | (87,592) | (88,078) |
| PROFIT FROM CONTINUING OPERATIONS BEFORE TAX AND ZAKAT | | 63,281 | 56,601 | 176,512 | 142,185 |
| Contribution to Kuwait Foundation for the Advancement of Sciences | | (545) | (447) | (1,284) | (1,092) |
| National Labour Support Tax | | (1,097) | (728) | (2,627) | (1,842) |
| Zakat (based on Zakat Law No. 46/2006) | | (569) | (227) | (1,325) | (579) |
| Taxation related to subsidiaries | | (3,523) | (4,265) | (12,433) | (12,413) |
| PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS | | 57,547 | 50,934 | 158,843 | 126,259 |
| DISCONTINUED OPERATIONS | | | | | |
| (Loss)/profit after tax and zakat for the period from discontinued operations | | (3,325) | 229 | (17,062) | 13,051 |
| Impairment loss recognised on discontinued operations | | - | - | (16,570) | - |
| (LOSS)/PROFIT AFTER TAX AND ZAKAT FROM DISCONTINUED OPERATIONS | 5 | (3,325) | 229 | (33,632) | 13,051 |
| PROFIT FOR THE PERIOD | | 54,222 | 51,163 | 125,211 | 139,310 |
| Attributable to: | | | | | |
| Shareholders of the Bank | | 52,251 | 43,365 | 123,130 | 105,705 |
| Non-controlling interests | | 1,971 | 7,798 | 2,081 | 33,605 |
| | | 54,222 | 51,163 | 125,211 | 139,310 |
| Basic and diluted earnings per share | | | | | |
| attributable to the shareholders of the Bank | 4 | 10.12 fils | 8.40 fils | 23.86 fils | 20.49 fils |
| Basic and diluted earnings per share from continuing operation attributable to the shareholders of the Bank | | | | | |
| | 4 | 10.18 fils | 8.37 fils | 27.42 fils | 19.40 fils |

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

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE
INCOME (UNAUDITED)

For the period ended 30 September 2016

| | <i>KD 000's</i> | | | |
|--|------------------------------|------------------------------|------------------------------|------------------------------|
| | <i>Three months ended</i> | | <i>Nine months ended</i> | |
| | <i>30 September 2016</i> | <i>30 September 2015</i> | <i>30 September 2016</i> | <i>30 September 2015</i> |
| Profit for the period | 54,222 | 51,163 | 125,211 | 139,310 |
| Other comprehensive income (loss) | | | | |
| <i>Items that are or may be reclassified subsequently to interim condensed consolidated statement of income:</i> | | | | |
| Change in fair value of financial assets available for sale | 444 | (383) | (6,226) | (1,808) |
| Realised (gain) loss on financial assets available for sale | (2,280) | 5,951 | 2,987 | 395 |
| Impairment losses on financial assets available for sale transferred to interim condensed consolidated statement of income | 1,780 | 3,725 | 8,747 | 14,846 |
| Share of other comprehensive income of associates and joint ventures | 258 | 1,225 | 1,127 | 775 |
| Exchange differences on translation of foreign operations | (14,737) | (61,505) | (14,575) | (79,029) |
| Other comprehensive loss for the period | (14,535) | (50,987) | (7,940) | (64,821) |
| Total comprehensive income | 39,687 | 176 | 117,271 | 74,489 |
| Attributable to: | | | | |
| Shareholders of the Bank | 40,631 | 8,238 | 117,720 | 70,286 |
| Non-controlling interests | (944) | (8,062) | (449) | 4,203 |
| | 39,687 | 176 | 117,271 | 74,489 |

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

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

As at 30 September 2016

| | | <i>KD 000's</i> | | |
|---|--------------|------------------------------|-----------------------------|------------------------------|
| | | <i>(Audited)</i> | | |
| | <i>Notes</i> | <i>30 September 2016</i> | <i>31 December 2015</i> | <i>30 September 2015</i> |
| ASSETS | | | | |
| Cash and balances with banks and financial institutions | 7 | 1,459,988 | 1,599,712 | 1,500,616 |
| Short-term murabaha | | 2,899,652 | 3,193,930 | 3,031,936 |
| Financing receivables | | 8,426,584 | 8,095,492 | 7,934,506 |
| Trading properties | | 193,721 | 214,362 | 199,180 |
| Investments | 8 | 1,463,636 | 1,314,756 | 1,358,052 |
| Investment in associates and joint ventures | | 458,967 | 534,856 | 473,663 |
| Investment properties | | 596,486 | 580,499 | 503,462 |
| Other assets | | 517,916 | 469,309 | 649,356 |
| Intangible assets and goodwill | | 48,290 | 47,960 | 52,911 |
| Property and equipment | | 232,876 | 264,181 | 923,132 |
| Leasehold rights | | - | 179,627 | 140,180 |
| Assets classified as held for sale | 5 | 344,162 | - | - |
| TOTAL ASSETS | | 16,642,278 | 16,494,684 | 16,766,994 |
| LIABILITIES | | | | |
| Due to banks and financial institutions | | 2,812,893 | 2,923,506 | 2,977,794 |
| Depositors' accounts | | 10,901,127 | 10,838,827 | 10,901,475 |
| Other liabilities | | 675,747 | 676,862 | 791,291 |
| Liabilities directly associated with the assets classified as held for sale | 5 | 170,621 | - | - |
| TOTAL LIABILITIES | | 14,560,388 | 14,439,195 | 14,670,560 |
| EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE BANK | | | | |
| Share capital | 9 | 524,154 | 476,504 | 476,504 |
| Share premium | | 720,333 | 720,333 | 720,333 |
| Proposed issue of bonus shares | 9 | - | 47,650 | - |
| Treasury shares | | (48,988) | (50,173) | (50,104) |
| Reserves | 6 | 614,551 | 505,067 | 588,050 |
| | | 1,810,050 | 1,699,381 | 1,734,783 |
| Proposed cash dividend | 9 | - | 79,755 | - |
| TOTAL EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE BANK | | 1,810,050 | 1,779,136 | 1,734,783 |
| Non-controlling interests | | 271,840 | 276,353 | 361,651 |
| TOTAL EQUITY | | 2,081,890 | 2,055,489 | 2,096,434 |
| TOTAL LIABILITIES AND EQUITY | | 16,642,278 | 16,494,684 | 16,766,994 |

HAMAD ABDUL MOHSEN AL-MARZOUQ
(CHAIRMAN)

MAZIN SAAD AL-NAHEDH
(GROUP CHIEF EXECUTIVE OFFICER)

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

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the period ended 30 September 2016

| | <i>Attributable to shareholders of the Bank</i> | | | | | | | <i>Non-controlling interests</i> | <i>Total equity</i> | |
|---|---|----------------------|---------------------------------------|------------------------|--------------------------|------------------|-------------------------------|----------------------------------|---------------------|------------------|
| | <i>Share capital</i> | <i>Share premium</i> | <i>Proposed issue of bonus shares</i> | <i>Treasury shares</i> | <i>Reserves (Note 6)</i> | <i>Subtotal</i> | <i>Proposed cash dividend</i> | <i>Subtotal</i> | | |
| 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 period | - | - | - | - | 123,130 | 123,130 | - | 123,130 | 2,081 | 125,211 |
| Other comprehensive loss | - | - | - | - | (5,410) | (5,410) | - | (5,410) | (2,530) | (7,940) |
| Total comprehensive income (loss) | - | - | - | - | 117,720 | 117,720 | - | 117,720 | (449) | 117,271 |
| Zakat paid | - | - | - | - | (7,914) | (7,914) | - | (7,914) | - | (7,914) |
| Issue of bonus shares (Note 9) | 47,650 | - | (47,650) | - | - | - | - | - | - | - |
| Cash dividends paid (Note 9) | - | - | - | - | - | - | (79,755) | (79,755) | - | (79,755) |
| Sale of treasury shares | - | - | - | 1,185 | (322) | 863 | - | 863 | - | 863 |
| Net other changes in non- controlling interests | - | - | - | - | - | - | - | - | (4,064) | (4,064) |
| At 30 September 2016 | 524,154 | 720,333 | - | (48,988) | 614,551 | 1,810,050 | - | 1,810,050 | 271,840 | 2,081,890 |

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

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED) (continued)

For the period ended 30 September 2016

| | <i>Attributable to shareholders of the Bank</i> | | | | | | | <i>Non-controlling interests</i> | <i>Total equity</i> | |
|---|---|----------------------|---------------------------------------|------------------------|--------------------------|-----------------|-------------------------------|----------------------------------|---------------------|-----------|
| | <i>Share capital</i> | <i>Share premium</i> | <i>Proposed issue of bonus shares</i> | <i>Treasury shares</i> | <i>Reserves (Note 6)</i> | <i>Subtotal</i> | <i>Proposed cash dividend</i> | <i>Subtotal</i> | | |
| At 1 January 2015 | 433,185 | 720,333 | 43,319 | (52,497) | 537,315 | 1,681,655 | 63,935 | 1,745,590 | 351,451 | 2,097,041 |
| Profit for the period | - | - | - | - | 105,705 | 105,705 | - | 105,705 | 33,605 | 139,310 |
| Other comprehensive loss | - | - | - | - | (35,419) | (35,419) | - | (35,419) | (29,402) | (64,821) |
| Total comprehensive income | - | - | - | - | 70,286 | 70,286 | - | 70,286 | 4,203 | 74,489 |
| Zakat paid | - | - | - | - | (6,327) | (6,327) | - | (6,327) | - | (6,327) |
| Issue of bonus shares (Note 9) | 43,319 | - | (43,319) | - | - | - | - | - | - | - |
| Cash dividends paid (Note 9) | - | - | - | - | - | - | (63,935) | (63,935) | - | (63,935) |
| Sale of treasury shares | - | - | - | 2,393 | 6 | 2,399 | - | 2,399 | - | 2,399 |
| Acquisition of non- controlling interests | - | - | - | - | (13,230) | (13,230) | - | (13,230) | 13,230 | - |
| Cash dividends paid to non- controlling interests | - | - | - | - | - | - | - | - | (4,381) | (4,381) |
| Net other changes in non- controlling interests | - | - | - | - | - | - | - | - | (2,852) | (2,852) |
| At 30 September 2015 | 476,504 | 720,333 | - | (50,104) | 588,050 | 1,734,783 | - | 1,734,783 | 361,651 | 2,096,434 |

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

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(UNAUDITED)

For the period ended 30 September 2016

| | | <i>KD 000's</i> | |
|---|--------------|------------------------------|------------------------------|
| | | <i>Nine months ended</i> | |
| | <i>Notes</i> | <i>30 September 2016</i> | <i>30 September 2015</i> |
| OPERATING ACTIVITIES | | | |
| Profit for the period from continuing operations | | 158,843 | 126,259 |
| (Loss)/profit after tax and zakat for the period from discontinued operations | | (33,632) | 13,051 |
| Adjustment to reconcile profit to net cash flows: | | | |
| Depreciation and amortization | | 29,568 | 54,754 |
| Provisions and impairment | | 87,592 | 88,078 |
| Impairment loss recognised on discontinued operations | | 16,570 | - |
| Gain on sale of investments | | (6,861) | 395 |
| Dividend income | | (5,277) | (5,463) |
| Share of results of associates and joint ventures | | (2,871) | (4,707) |
| Gain on sale of investment properties | | (6,810) | (2,390) |
| Other investment income | | (11,364) | (9,054) |
| | | 225,758 | 260,923 |
| Changes in operating assets and liabilities | | | |
| <i>(Increase) decrease in operating assets:</i> | | | |
| Financing receivables | | (147,609) | 269,090 |
| Trading properties | | 7,556 | (19,872) |
| Other assets | | (113,209) | (15,495) |
| Statutory deposit with Central Banks | | 268 | 42,188 |
| <i>Increase (decrease) in operating liabilities:</i> | | | |
| Due to banks and financial institutions | | 2,051 | (473,468) |
| Depositors' accounts | | 62,300 | 20,083 |
| Other liabilities | | 61,815 | 29,858 |
| Net cash flows from operating activities | | 98,930 | 113,307 |
| INVESTING ACTIVITIES | | | |
| Purchase of financial assets available for sale, net | | (147,527) | (22,622) |
| Purchase of investment properties | | (9,902) | (32,403) |
| Proceeds from sale of investment properties | | 9,633 | 33,519 |
| Purchase of property and equipment | | (37,062) | (137,414) |
| Proceeds from sale of property and equipment | | 17,047 | 25,872 |
| Intangible assets, net | | (3,730) | (8,519) |
| Leasehold rights, net | | (13,246) | (2,066) |
| Purchase of investment in associates and joint ventures | | (7,151) | (7,600) |
| Proceeds from sale of investment in associates and joint ventures | | 759 | 1,495 |
| Dividend received | | 20,571 | 13,080 |
| Net cash flows used in investing activities | | (170,608) | (136,658) |
| FINANCING ACTIVITIES | | | |
| Cash dividends paid | 9 | (79,755) | (63,935) |
| Cash dividends paid to non-controlling interests of a subsidiary | | - | (4,381) |
| Proceeds from sale of treasury shares | | 863 | 2,399 |
| Zakat paid | | (7,914) | (6,327) |
| Net cash flows used in financing activities | | (86,806) | (72,244) |
| DECREASE IN CASH AND CASH EQUIVALENTS | | (158,484) | (95,595) |
| Cash and cash equivalents at 1 January | | 2,572,884 | 2,433,322 |
| CASH AND CASH EQUIVALENTS AT 30 SEPTEMBER | 7 | 2,414,400 | 2,337,727 |

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

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

As at 30 September 2016

1 INCORPORATION AND REGISTRATION

The interim condensed consolidated financial information of Kuwait Finance House K.S.C.P. (“the Bank”) and its subsidiaries (collectively “the Group”) for the nine months period ended 30 September 2016 were authorised for issue by the Bank’s Board of Directors on 16 October 2016.

The shareholders’ annual general assembly held on 21 March 2016 approved the audited consolidated financial statements of the Group for the year ended 31 December 2015.

The Bank is a public shareholding company incorporated in Kuwait on 23 March 1977 and was registered as an Islamic bank with the Central Bank of Kuwait on 24 May 2004. It is engaged principally in providing banking services, the purchase and sale of properties, leasing, project construction for its own account as well as for third parties and other trading activities without practising usury. Trading activities are conducted on the basis of purchasing various goods and selling them on murabaha at negotiated profit margins which can be settled in cash or on instalment credit basis. The Bank’s registered head office is at Abdulla Al-Mubarak Street, Murqab, Kuwait.

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

The new Companies Law No. 1 of 2016 was issued on 24 January 2016 and was published in the Official Gazette on 1 February 2016 cancelled the Companies Law No 25 of 2012, and its amendments. According to article No. 5 the new Law will be effective retrospectively from 26 November 2012. The new Executive Regulations of Law No. 1 of 2016 was issued on 12 July 2016 and was published in the Official Gazette on 17 July 2016 which cancelled the Executive Regulations of Law No. 25 of 2012.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

The interim condensed consolidated financial information of the Group has been prepared in accordance with IAS 34, “Interim Financial Reporting”. The accounting policies used in the preparation of the interim condensed consolidated financial information are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2015, except for the adoption of the amendments and annual improvements to International Financial Reporting Standards (“IFRS”), relevant to the Group which are effective for annual reporting period starting from 1 January 2016 and did not result in any material impact on the accounting policies, financial position or performance of the Group.

The annual consolidated financial statements for the year ended 31 December 2015 were prepared in accordance with the regulations of the State of Kuwait for financial services institutions regulated by the Central Bank of Kuwait. These regulations require adoption of all IFRS except for the IAS 39 requirement for collective impairment provision, which has been replaced by the Central Bank of Kuwait’s requirement for a minimum general provision made on all applicable credit facilities (net of certain categories of collaterals) that are not provided specifically.

The interim condensed consolidated financial information are presented in Kuwaiti Dinars which is the functional currency of the Bank, rounded to the nearest thousands, except when otherwise stated.

The interim condensed consolidated financial information does not contain all information and disclosures required for full financial statements prepared in accordance with IFRS, and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2015.

Further, results for the nine months period ended 30 September 2016, are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2016.

The accounting policy below, adopted in previous years is in relation to discontinued operations (Note 5).

Non-current assets held for sale and discontinued operations

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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
INFORMATION (UNAUDITED)

As at 30 September 2016

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**Non-current assets held for sale and discontinued operations (continued)**

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 interim condensed consolidated statement of income.

3 FINANCE COST AND ESTIMATED DISTRIBUTION TO DEPOSITORS

The management of the Bank has estimated distribution to depositors and profit attributable to Bank's shareholders based on the results for the nine months period ended 30 September 2016. The actual distribution to depositors and profit attributable to Bank's shareholders could be different from the amounts presented in the interim condensed consolidated statement of income.

The actual profit to be distributed to all parties concerned will be determined by the Board of Directors of the Bank in accordance with the Bank's articles of association, based on the annual audited results for the year ending 31 December 2016.

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

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

| | <i>Three months ended 30 September</i> | | <i>Nine months ended 30 September</i> | |
|---|--|------------------|---------------------------------------|-------------------|
| | <i>2016</i> | <i>2015</i> | <i>2016</i> | <i>2015</i> |
| Basic and diluted earnings per share: | | | | |
| Profit for the period attributable to shareholders of the Bank (thousand KD) | <u>52,251</u> | <u>43,365</u> | <u>123,130</u> | <u>105,705</u> |
| Weighted average number of shares outstanding during the period (thousands share) | <u>5,161,801</u> | <u>5,159,499</u> | <u>5,160,880</u> | <u>5,158,376</u> |
| Basic and diluted earnings per share attributable to the shareholders of the Bank | <u>10.12 fils</u> | <u>8.40 fils</u> | <u>23.86 fils</u> | <u>20.49 fils</u> |
| Basic and diluted earnings per share from continuing operations: | | | | |
| Profit for the period from continuing operations attributable to shareholders of the Bank (thousand KD) | <u>52,541</u> | <u>43,208</u> | <u>141,492</u> | <u>100,062</u> |
| Weighted average number of shares outstanding during the period (thousands share) | <u>5,161,801</u> | <u>5,159,499</u> | <u>5,160,880</u> | <u>5,158,376</u> |
| Basic and diluted earnings per share from continuing operation attributable to the shareholders of the Bank | <u>10.18 fils</u> | <u>8.37 fils</u> | <u>27.42 fils</u> | <u>19.40 fils</u> |

The comparative basic and diluted earnings per share have been restated to reflect the impact of bonus shares issued (Note 9).

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
INFORMATION (UNAUDITED)

As at 30 September 2016

5 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 interim condensed consolidated statement of financial position at 30 September 2016 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 assets classified as held for sale and liabilities directly associated with the assets classified as held for sale in the interim condensed consolidated statement of financial position net of accumulated impairment provision attributable to the shareholders of the Bank of KD 41,487 thousand and inter-group eliminations.

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

As at 30 September 2016

6 RESERVES

The movement of reserves is analysed as follows:

| <i>30 September 2016</i> | | | | | | | | | |
|-------------------------------------|--------------------------|--------------------------|--------------------------|---|--------------------------------|---------------------------|---|-----------------------|----------------|
| | <i>KD 000's</i> | | | | | | | | |
| | <i>Statutory reserve</i> | <i>Voluntary reserve</i> | <i>Retained earnings</i> | <i>Employees' share options reserve</i> | <i>Treasury shares reserve</i> | <i>Fair value reserve</i> | <i>Foreign exchange translation reserve</i> | <i>Other reserves</i> | <i>Total</i> |
| Balance at 1 January 2016 | 238,252 | 238,252 | 124,579 | - | 7,084 | 17,729 | (97,233) | (23,596) | 505,067 |
| Profit for the period | - | - | 123,130 | - | - | - | - | - | 123,130 |
| Other comprehensive income (loss) | - | - | - | - | - | 5,153 | (10,563) | - | (5,410) |
| Total comprehensive income (loss) | - | - | 123,130 | - | - | 5,153 | (10,563) | - | 117,720 |
| Zakat paid | - | - | (7,914) | - | - | - | - | - | (7,914) |
| Loss on sale of treasury shares | - | - | - | - | (322) | - | - | - | (322) |
| Balance at 30 September 2016 | 238,252 | 238,252 | 239,795 | - | 6,762 | 22,882 | (107,796) | (23,596) | 614,551 |

| <i>30 September 2015</i> | | | | | | | | | |
|--|--------------------------|--------------------------|--------------------------|---|--------------------------------|---------------------------|---|-----------------------|--------------|
| | <i>KD 000's</i> | | | | | | | | |
| | <i>Statutory reserve</i> | <i>Voluntary reserve</i> | <i>Retained earnings</i> | <i>Employees' share options reserve</i> | <i>Treasury shares reserve</i> | <i>Fair value reserve</i> | <i>Foreign exchange translation reserve</i> | <i>Other reserves</i> | <i>Total</i> |
| Balance at 1 January 2015 | 238,252 | 238,252 | 108,224 | 4,246 | 7,078 | 4,493 | (54,310) | (8,920) | 537,315 |
| Profit for the period | - | - | 105,705 | - | - | - | - | - | 105,705 |
| Other comprehensive income (loss) | - | - | - | - | - | 12,326 | (47,745) | - | (35,419) |
| Total comprehensive income (loss) | - | - | 105,705 | - | - | 12,326 | (47,745) | - | 70,286 |
| Zakat paid | - | - | (6,327) | - | - | - | - | - | (6,327) |
| Profit on sale of treasury shares | - | - | - | - | 6 | - | - | - | 6 |
| Acquisition of non-controlling interests | - | - | - | - | - | - | - | (13,230) | (13,230) |
| Balance at 30 September 2015 | 238,252 | 238,252 | 207,602 | 4,246 | 7,084 | 16,819 | (102,055) | (22,150) | 588,050 |

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

As at 30 September 2016

7 CASH AND CASH EQUIVALENTS

| | <i>KD 000's</i> | | |
|---|------------------------------|---|------------------------------|
| | <i>30 September 2016</i> | <i>(Audited) 31 December 2015</i> | <i>30 September 2015</i> |
| Cash | 238,514 | 246,715 | 258,403 |
| Balances with Central Banks | 772,992 | 773,592 | 716,500 |
| Balances with banks and financial institutions - current accounts | 448,482 | 579,405 | 525,713 |
| Cash and balances with banks and financial institutions | 1,459,988 | 1,599,712 | 1,500,616 |
| Short term murabaha maturing within 3 months of contract date | 1,291,424 | 1,487,068 | 1,066,106 |
| Tawarruq balances with Central Bank of Kuwait maturing within 3 months of contract date | 238,531 | 95,024 | 350,077 |
| Cash with banks attributable to discontinued operations | 33,109 | - | - |
| Less: Statutory deposits with Central Banks | (608,652) | (608,920) | (579,072) |
| Cash and cash equivalents | 2,414,400 | 2,572,884 | 2,337,727 |

8 INVESTMENTS

This includes investments in Sukook of KD 1,062,359 thousand (31 December 2015: KD 806,544 thousand and 30 September 2015: KD 847,751 thousand).

9 SHARE CAPITAL, ISSUE OF BONUS SHARES AND CASH DIVIDENDS

Bonus shares of 10% (2014: 10%) on outstanding shares amounting KD 47,650 thousand (2014: KD 43,319 thousand) and cash dividends of 17 fils per share (2014: 15 fils per share) amounting KD 79,755 thousand (2014: KD 63,935 thousand) proposed for the year ended 31 December 2015, to the Bank's shareholders, were approved by the Bank's extraordinary general assembly and ordinary general assembly of the shareholders held on 21 March 2016.

Accordingly, the authorised, issued, and fully paid share capital as at 30 September 2016 comprise of 5,241,539,597 (31 December 2015: 4,765,035,998 and 30 September 2015: 4,765,035,998) shares of 100 fils each.

10 DIRECTORS' FEES

In the ordinary general assembly meeting of the shareholders of the Bank for the year ended 31 December 2015 held on 21 March 2016, the shareholders approved directors' fees proposed for the year ended 31 December 2015.

11 CONTINGENCIES AND COMMITMENTS

At the financial position date there were outstanding contingencies and commitments entered into in the ordinary course of business in respect of the following:

| | <i>KD 000's</i> | | |
|-----------------------------------|------------------------------|---|------------------------------|
| | <i>30 September 2016</i> | <i>(Audited) 31 December 2015</i> | <i>30 September 2015</i> |
| Acceptances and letters of credit | 144,012 | 143,603 | 159,857 |
| Letter of guarantees | 1,613,983 | 1,513,029 | 1,191,381 |
| Contingencies | 1,757,995 | 1,656,632 | 1,351,238 |
| Capital commitments | 477,494 | 349,775 | 2,034,042 |

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

As at 30 September 2016

12 RELATED PARTY TRANSACTIONS

Certain related parties (major shareholders, directors and executive employees, officers of the Group, their families, associated companies and companies of which they are the principal owners) are depositors and finance facilities customers of the Bank, 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. These transactions are approved by the ordinary general assembly of the shareholders of the Bank.

The balances included in the interim condensed consolidated statement of financial position are as follows:

| | <i>KD 000's</i> | | | | | | |
|---|---------------------------|-------------------|---|------------------------------|--------------------------|-------------------------|--------------|
| | <i>Major shareholders</i> | <i>Associates</i> | <i>Board members and executive officers</i> | <i>Other related parties</i> | <i>(Audited)</i> | | <i>Total</i> |
| | | | | | <i>30 September 2016</i> | <i>31 December 2015</i> | |
| Related parties | | | | | | | |
| Financing receivables Due to banks and financial institutions | - | 115,414 | 5,433 | 16,341 | 137,188 | 142,414 | 108,432 |
| Depositors' accounts | 1,360,630 | 7,534 | - | 366 | 1,368,530 | 1,305,034 | 1,148,833 |
| Contingencies and commitments | - | 77,359 | 7,795 | 10,738 | 95,892 | 125,870 | 60,920 |
| Investment managed by related party | 436 | 3,290 | 2 | 3,616 | 7,344 | 38,689 | 37,035 |
| | - | - | - | 33,584 | 33,584 | 33,824 | 41,670 |

Transactions with related parties included in the interim condensed consolidated statement of income are as follows:

| | <i>KD 000's</i> | | | | | | |
|---|---------------------------|-------------------|---|------------------------------|--------------------------|--------------------------|--------------|
| | <i>Major shareholders</i> | <i>Associates</i> | <i>Board members and executive officers</i> | <i>Other related parties</i> | <i>Nine months ended</i> | | <i>Total</i> |
| | | | | | <i>30 September 2016</i> | <i>30 September 2015</i> | |
| Financing income | - | 2,741 | 197 | 470 | 3,408 | | 3,505 |
| Fee and commission income | - | 87 | 7 | 155 | 249 | | 227 |
| Finance cost and estimated distribution to depositors | 15,578 | 807 | - | 641 | 17,026 | | 13,650 |

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

As at 30 September 2016

12 RELATED PARTY TRANSACTIONS (continued)

Details of the interests of Board Members and Executive Officers of the Bank and all consolidated subsidiaries are as follows:

| | <i>KD 000's</i> | | | | | | | | |
|---------------------------------------|--|-----------------------------|------------------------------|---|-----------------------------|------------------------------|------------------------------|-----------------------------|------------------------------|
| | <i>The number of Board Members or Executive Officers</i> | | | <i>The number of related parties (Relatives of Board Members or Executive Officers)</i> | | | <i>Values</i> | | |
| | <i>(Audited)</i> | | | <i>(Audited)</i> | | | <i>(Audited)</i> | | |
| | <i>30 September 2016</i> | <i>31 December 2015</i> | <i>30 September 2015</i> | <i>30 September 2016</i> | <i>31 December 2015</i> | <i>30 September 2015</i> | <i>30 September 2016</i> | <i>31 December 2015</i> | <i>30 September 2015</i> |
| Board Members | | | | | | | | | |
| Finance facilities | 30 | 36 | 38 | 4 | 4 | 4 | 11,797 | 39,228 | 33,153 |
| Credit cards | 13 | 20 | 19 | - | - | - | 32 | 36 | 34 |
| Deposits | 75 | 87 | 93 | 26 | 16 | 16 | 8,680 | 12,389 | 12,435 |
| Collateral against finance facilities | 8 | 11 | 14 | 2 | 1 | 1 | 5,923 | 9,104 | 8,047 |
| Executive Officers | | | | | | | | | |
| Finance facilities | 45 | 30 | 29 | 8 | 6 | 2 | 3,185 | 2,697 | 2,704 |
| Credit cards | 30 | 23 | 18 | 4 | 2 | 1 | 160 | 113 | 96 |
| Deposits | 78 | 58 | 56 | 46 | 20 | 21 | 4,800 | 1,450 | 2,055 |
| Collateral against finance facilities | 17 | 14 | 15 | 3 | 4 | 1 | 8,588 | 4,885 | 5,617 |

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

As at 30 September 2016

12 RELATED PARTY TRANSACTIONS (continued)

The transactions included in the interim condensed consolidated statement of income are as follows:

| | <i>KD 000's</i> | |
|---------------------------|--------------------------|------------|
| | <i>Total</i> | |
| | <i>Nine months ended</i> | |
| <i>30 September 2016</i> | <i>30 September 2015</i> | |
| Board Members | | |
| Finance income | 90 | 122 |
| Executive officers | | |
| Finance income | 107 | 109 |
| | <u>197</u> | <u>231</u> |

Salaries, allowances and bonuses of key management personnel, termination benefits of key management personnel and remuneration of chairman and board members of the Bank and all consolidated subsidiaries are as follows:

| | <i>KD 000's</i> | |
|--|--------------------------|---------------|
| | <i>Total</i> | |
| | <i>Nine months ended</i> | |
| <i>30 September 2016</i> | <i>30 September 2015</i> | |
| Salaries, allowances and bonuses of key management personnel | 12,995 | 14,284 |
| Termination benefits of key management personnel | 907 | 786 |
| Remuneration of chairman and board members * | 595 | 910 |
| | <u>14,497</u> | <u>15,980</u> |

* 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.

13 SEGMENTAL ANALYSIS

Segment information

| <i>30 September 2016</i> | <i>KD 000's</i> | | | | |
|------------------------------|-----------------|--------------------|----------------|--------------|--------------|
| | <i>Treasury</i> | <i>Investments</i> | <i>Banking</i> | <i>Other</i> | <i>Total</i> |
| Total assets | 5,420,990 | 1,848,521 | 8,578,681 | 794,086 | 16,642,278 |
| Total liabilities | 2,995,878 | 32,105 | 10,955,640 | 576,765 | 14,560,388 |
| Total operating income | 14,136 | 53,761 | 384,818 | 38,808 | 491,523 |
| Profit (loss) for the period | 8,621 | 26,484 | 261,094 | (170,988) | 125,211 |

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

As at 30 September 2016

13 SEGMENTAL ANALYSIS (continued)

Segment information (continued)

| | <i>KD 000's</i> | | | | |
|------------------------------|-----------------|--------------------|----------------|--------------|--------------|
| <i>30 September 2015</i> | <i>Treasury</i> | <i>Investments</i> | <i>Banking</i> | <i>Other</i> | <i>Total</i> |
| Total assets | 5,104,633 | 2,298,102 | 8,098,232 | 1,266,027 | 16,766,994 |
| Total liabilities | 2,743,036 | 38,365 | 10,959,052 | 930,107 | 14,670,560 |
| Total operating income | 11,477 | 36,510 | 347,596 | 76,982 | 472,565 |
| Profit (loss) for the period | 6,446 | (6,056) | 229,842 | (90,922) | 139,310 |

14 FAIR VALUES

The Group uses the following hierarchy for determining and disclosing the fair value of financial assets 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 30 September 2016:

| | <i>KD 000's</i> | | | |
|---|------------------|------------------|------------------|------------------|
| Financial assets measured at fair value: | <i>(Level 1)</i> | <i>(Level 2)</i> | <i>(Level 3)</i> | <i>Total</i> |
| Venture capital at fair value through statement of income | - | 88,814 | - | 88,814 |
| Financial assets available for sale | 801,407 | 65,411 | 403,467 | 1,270,285 |
| <i>Derivative financial assets:</i> | | | | |
| Forward contracts | 497 | - | - | 497 |
| Profit rate swaps | - | 432 | - | 432 |
| Currency swaps | 2,671 | - | - | 2,671 |
| | <u>804,575</u> | <u>154,657</u> | <u>403,467</u> | <u>1,362,699</u> |
| Financial liabilities measured at fair value: | <i>(Level 1)</i> | <i>(Level 2)</i> | <i>(Level 3)</i> | <i>Total</i> |
| <i>Derivative financial liabilities:</i> | | | | |
| Forward contracts | 486 | - | - | 486 |
| Profit rate swaps | - | 33 | - | 33 |
| Currency swaps | 10,211 | - | - | 10,211 |
| Embedded precious metals | 46 | - | - | 46 |
| | <u>10,743</u> | <u>33</u> | <u>-</u> | <u>10,776</u> |

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

As at 30 September 2016

14 FAIR VALUES (continued)

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities as at 31 December 2015.

| | <i>KD 000's</i> | | | |
|---|------------------|------------------|------------------|------------------|
| | <i>(Level 1)</i> | <i>(Level 2)</i> | <i>(Level 3)</i> | <i>Total</i> |
| Financial assets measured at fair value: | | | | |
| Venture capital at fair value through statement of income | - | 132,030 | - | 132,030 |
| Financial assets available for sale | 698,113 | 70,416 | 266,385 | 1,034,914 |
| <i>Derivative financial assets:</i> | | | | |
| Forward contracts | 1,681 | - | - | 1,681 |
| Profit rate swaps | - | 625 | - | 625 |
| Currency swaps | 3,021 | - | - | 3,021 |
| Embedded precious metals | 2 | - | - | 2 |
| | <u>702,817</u> | <u>203,071</u> | <u>266,385</u> | <u>1,172,273</u> |

| | <i>KD 000's</i> | | | |
|---|------------------|------------------|------------------|---------------|
| | <i>(Level 1)</i> | <i>(Level 2)</i> | <i>(Level 3)</i> | <i>Total</i> |
| Financial liabilities measured at fair value: | | | | |
| <i>Derivative financial liabilities:</i> | | | | |
| Forward contracts | 1,460 | - | - | 1,460 |
| Profit rate swaps | - | 11 | - | 11 |
| Currency swaps | 16,423 | - | - | 16,423 |
| Embedded precious metals | 2 | - | - | 2 |
| | <u>17,885</u> | <u>11</u> | <u>-</u> | <u>17,896</u> |

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities as at 30 September 2015:

| | <i>KD 000's</i> | | | |
|---|------------------|------------------|------------------|------------------|
| | <i>(Level 1)</i> | <i>(Level 2)</i> | <i>(Level 3)</i> | <i>Total</i> |
| Financial assets measured at fair value: | | | | |
| Venture capital at fair value through statement of income | - | 133,974 | - | 133,974 |
| Financial assets available for sale | 703,723 | 65,195 | 296,385 | 1,065,303 |
| <i>Derivative financial assets:</i> | | | | |
| Forward contracts | 5,541 | - | - | 5,541 |
| Profit rate swaps | - | 11 | - | 11 |
| Currency swaps | 5,159 | - | - | 5,159 |
| | <u>714,423</u> | <u>199,180</u> | <u>296,385</u> | <u>1,209,988</u> |

| | <i>KD 000's</i> | | | |
|---|------------------|------------------|------------------|---------------|
| | <i>(Level 1)</i> | <i>(Level 2)</i> | <i>(Level 3)</i> | <i>Total</i> |
| Financial liabilities measured at fair value: | | | | |
| <i>Derivative financial liabilities:</i> | | | | |
| Forward contracts | 5,141 | - | - | 5,141 |
| Profit rate swaps | - | 111 | - | 111 |
| Currency swaps | 12,929 | - | - | 12,929 |
| Embedded precious metals | 9 | - | - | 9 |
| | <u>18,079</u> | <u>111</u> | <u>-</u> | <u>18,190</u> |

No transfers have been made between the levels of hierarchy.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
INFORMATION (UNAUDITED)**

As at 30 September 2016

15 FIDUCIARY ASSETS

The aggregate value of assets held in a trust or fiduciary capacity by the Group at 30 September 2016 amounted to KD 1,229,556 thousand (31 December 2015: KD 1,184,836 thousand and 30 September 2015: KD 1,011,228 thousand).

Fee and commission income include fees of KD 3,252 thousand (30 September 2015: KD 1,876 thousand) arising from trust and fiduciary activities.