

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

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

30 SEPTEMBER 2018



Building a better
working world

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

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Kuwait Finance House K.S.C.P. ("the Bank") and its subsidiaries (collectively "the Group") as at 30 September 2018 and the related interim condensed consolidated statement of income, and interim condensed consolidated statement of comprehensive income for the three-month and nine-month periods then ended and the related interim condensed consolidated statement of changes in equity and interim condensed consolidated statement of cash flows for the nine-month period then ended. The management of the Group is responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with the basis of presentation set out in Note 2. Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review.

Scope of Review

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

Conclusion

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

Report on Other Legal and Regulatory Requirements

Furthermore, based on our review, the interim condensed consolidated financial information is in agreement with the books of account of the Bank. We further report that, to the best of our knowledge and belief, we have not become aware of any violations of the Companies Law No. 1 of 2016, as amended and its executive regulations, as amended or of the Bank's Articles of Association and Memorandum of Incorporation, as amended, during the nine-month period ended 30 September 2018 that might have had a material effect on the business of the Bank or on its financial position.

We further report that, during the course of our review, to the best of our knowledge and belief, we have not become aware of any violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organisation of banking business, and its related regulations, during the nine-month period ended 30 September 2018 that might have had a material effect on the business of the Bank or on its financial position.

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EY
(AL AIBAN, AL OSAIMI & PARTNERS)

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME
(UNAUDITED)

For the period ended 30 September 2018

	Notes	<i>KD 000's</i>			
		<i>Three months ended</i>		<i>Nine months ended</i>	
		30 September 2018	<i>30 September 2017</i>	30 September 2018	<i>30 September 2017</i>
INCOME					
Financing income		212,318	195,103	636,457	542,074
Finance cost and estimated distribution to depositors	4	(85,338)	(83,015)	(231,637)	(219,145)
Net financing income		126,980	112,088	404,820	322,929
Investment income		23,182	32,276	52,933	88,162
Fees and commission income		19,036	24,395	67,699	73,436
Net gain from foreign currencies		21,137	5,120	33,260	13,570
Other operating income		9,396	7,997	30,893	26,957
TOTAL OPERATING INCOME		199,731	181,876	589,605	525,054
OPERATING EXPENSES					
Staff costs		(41,348)	(40,830)	(137,308)	(125,358)
General and administrative expenses		(19,280)	(21,345)	(61,403)	(62,773)
Depreciation and amortization		(7,435)	(8,225)	(23,423)	(25,174)
TOTAL OPERATING EXPENSES		(68,063)	(70,400)	(222,134)	(213,305)
NET OPERATING INCOME		131,668	111,476	367,471	311,749
Provisions and impairment	5	(33,135)	(39,471)	(131,160)	(125,100)
Profit (loss) for the period from discontinuing operations		230	(1,637)	(3,508)	(8,037)
PROFIT FOR THE PERIOD BEFORE TAXATION		98,763	70,368	232,803	178,612
Taxation	7	(11,803)	(8,770)	(31,328)	(24,297)
PROFIT FOR THE PERIOD		86,960	61,598	201,475	154,315
Attributable to:					
Shareholders of the Bank		73,885	56,220	169,102	137,865
Non-controlling interests		13,075	5,378	32,373	16,450
		86,960	61,598	201,475	154,315
BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO THE SHAREHOLDERS OF THE BANK	6	11.81 fils	8.99 fils	27.04 fils	22.06 fils

The attached notes 1 to 18 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 2018

	<i>KD 000's</i>			
	<i>Three months ended</i>		<i>Nine months ended</i>	
	<i>30 September 2018</i>	<i>30 September 2017</i>	<i>30 September 2018</i>	<i>30 September 2017</i>
Profit for the period	86,960	61,598	201,475	154,315
<i>Items that will not be reclassified to interim condensed consolidated statement of income in subsequent periods:</i>				
Revaluation loss on equity instruments at fair value through other comprehensive income	(2,059)	-	(5,893)	-
<i>Items that are or may be reclassified subsequently to interim condensed consolidated statement of income:</i>				
Sukuk investments at fair value through other comprehensive income:				
Net change in fair value during the period	9,700	-	(20,788)	-
Recycled to interim condensed consolidated statement of income	3,813	-	5,320	-
Net gain (loss) on sukuk investments at fair value through other comprehensive income	13,513	-	(15,468)	-
Financial assets available for sale:				
Net change in fair value	-	8,032	-	16,415
Net transfer to interim condensed consolidated statement of income	-	(6,372)	-	(12,289)
	-	1,660	-	4,126
Share of other comprehensive income (loss) from associates and joint ventures	676	(396)	(680)	283
Exchange differences on translation of foreign operations	(91,509)	(10,991)	(157,919)	(15,550)
	(90,833)	(9,727)	(158,599)	(11,141)
Other comprehensive loss for the period	(79,379)	(9,727)	(179,960)	(11,141)
Total comprehensive income	7,581	51,871	21,515	143,174
Attributable to:				
Shareholders of the Bank	28,901	49,826	49,710	129,946
Non-controlling interests	(21,320)	2,045	(28,195)	13,228
	7,581	51,871	21,515	143,174

The attached notes 1 to 18 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 2018

		<i>KD 000's</i>		
		<i>(Audited)</i>		
	<i>Notes</i>	<i>30 September 2018</i>	<i>31 December 2017</i>	<i>30 September 2017</i>
ASSETS				
Cash and balances with banks and financial institutions	11	1,265,606	1,262,456	1,229,258
Short-term murabaha		3,140,283	2,925,329	2,947,014
Financing receivables		9,166,101	9,216,475	9,273,888
Investment in Sukuk		1,475,888	1,428,655	1,358,161
Trading properties		155,022	161,137	158,486
Investments		302,581	304,293	332,900
Investment in associates and joint ventures		498,302	463,797	452,956
Investment properties		511,616	554,321	585,672
Other assets		553,631	464,558	496,587
Intangible assets and goodwill		30,972	38,659	40,231
Property and equipment		190,960	214,001	216,934
Assets classified as held for sale	8	17,346	324,300	309,166
TOTAL ASSETS		17,308,308	17,357,981	17,401,253
LIABILITIES				
Due to banks and financial institutions		2,640,142	2,239,923	2,256,125
Sukuk payables		468,747	518,078	513,424
Depositors' accounts		11,502,963	11,596,733	11,661,202
Other liabilities		717,188	699,236	716,041
Liabilities directly associated with the assets classified as held for sale	8	2,262	187,889	170,995
TOTAL LIABILITIES		15,331,302	15,241,859	15,317,787
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE BANK				
Share capital	12	634,226	576,569	576,569
Share premium		720,333	720,333	720,333
Proposed issue of bonus shares	12	-	57,657	-
Treasury shares		(44,714)	(45,063)	(45,835)
Reserves	10	500,848	466,101	594,907
		1,810,693	1,775,597	1,845,974
Proposed cash dividends	12	-	96,645	-
TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE BANK		1,810,693	1,872,242	1,845,974
Non-controlling interests		166,313	243,880	237,492
TOTAL EQUITY		1,977,006	2,116,122	2,083,466
TOTAL LIABILITIES AND EQUITY		17,308,308	17,357,981	17,401,253

HAMAD ABDUL MOHSEN AL-MARZOUQ
(CHAIRMAN)

MAZIN SAAD AL-NAHEDH
(GROUP CHIEF EXECUTIVE OFFICER)

The attached notes 1 to 18 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 2018

	KD 000's									
	<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 10)</i>	<i>Subtotal</i>	<i>Proposed cash dividends</i>	<i>Subtotal</i>	<i>Non-controlling interests</i>	<i>Total equity</i>
Balance at 1 January 2018	576,569	720,333	57,657	(45,063)	466,101	1,775,597	96,645	1,872,242	243,880	2,116,122
Transition adjustment on adoption of IFRS 9 at 1 January 2018 (Note 3)	-	-	-	-	(2,219)	(2,219)	-	(2,219)	(226)	(2,445)
Restated balance at 1 January 2018	576,569	720,333	57,657	(45,063)	463,882	1,773,378	96,645	1,870,023	243,654	2,113,677
Profit for the period	-	-	-	-	169,102	169,102	-	169,102	32,373	201,475
Other comprehensive loss	-	-	-	-	(119,392)	(119,392)	-	(119,392)	(60,568)	(179,960)
Total comprehensive income (loss)	-	-	-	-	49,710	49,710	-	49,710	(28,195)	21,515
Zakat	-	-	-	-	(12,578)	(12,578)	-	(12,578)	-	(12,578)
Share based payments (Note 9)	-	-	-	-	368	368	-	368	-	368
Issue of bonus shares (Note 12)	57,657	-	(57,657)	-	-	-	-	-	-	-
Cash dividends (Note 12)	-	-	-	-	-	-	(96,645)	(96,645)	-	(96,645)
Net movement in treasury shares	-	-	-	349	97	446	-	446	-	446
Deconsolidation of a subsidiary (Note 8)	-	-	-	-	(341)	(341)	-	(341)	(43,972)	(44,313)
Disposal of a subsidiary	-	-	-	-	(290)	(290)	-	(290)	(955)	(1,245)
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	(1,554)	(1,554)
Net other changes in non-controlling interests	-	-	-	-	-	-	-	-	(2,665)	(2,665)
Balance at 30 September 2018	634,226	720,333	-	(44,714)	500,848	1,810,693	-	1,810,693	166,313	1,977,006

The attached notes 1 to 18 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 2018

KD 000's

	Attributable to shareholders of the Bank							Non-controlling interests	Total equity	
	Share capital	Share premium	Proposed issue of bonus shares	Treasury shares	Reserves (Note 10)	Subtotal	Proposed cash dividends			Subtotal
Balance 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 period	-	-	-	-	137,865	137,865	-	137,865	16,450	154,315
Other comprehensive loss	-	-	-	-	(7,919)	(7,919)	-	(7,919)	(3,222)	(11,141)
Total comprehensive income	-	-	-	-	129,946	129,946	-	129,946	13,228	143,174
Zakat	-	-	-	-	(9,682)	(9,682)	-	(9,682)	-	(9,682)
Issue of bonus shares (Note 12)	52,415	-	(52,415)	-	-	-	-	-	-	-
Cash dividends (Note 12)	-	-	-	-	-	-	(87,755)	(87,755)	-	(87,755)
Net movement in treasury shares	-	-	-	2,989	(9)	2,980	-	2,980	-	2,980
Disposal of a subsidiary	-	-	-	-	-	-	-	-	(1,434)	(1,434)
Net other changes in non-controlling interests	-	-	-	-	-	-	-	-	(2,642)	(2,642)
Balance at 30 September 2017	576,569	720,333	-	(45,835)	594,907	1,845,974	-	1,845,974	237,492	2,083,466

The attached notes 1 to 18 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 2018

	<i>KD 000's</i>	
	<i>Nine months ended</i>	
<i>Notes</i>	30 September 2018	30 September 2017
OPERATING ACTIVITIES		
Profit for the period before taxation	232,803	178,612
Adjustments to reconcile profit to net cash flows:		
Depreciation and amortization	23,423	25,174
Provisions and impairment	131,160	125,100
Loss (gain) on sale of investments	660	(26,017)
Dividends income	(4,022)	(4,839)
Share of results of associates and joint ventures	(26,752)	(12,239)
Gain on sale of trading and investment properties	(3,954)	(11,631)
Other investment income	(9,894)	(20,844)
	343,424	253,316
Changes in operating assets and liabilities		
<i>Decrease (increase) in operating assets:</i>		
Financing receivables	(105,575)	(1,592,583)
Trading properties	6,115	21,969
Other assets	(92,128)	96,850
Statutory deposit with Central Banks	314,431	(20,647)
<i>Increase (decrease) in operating liabilities:</i>		
Due to banks and financial institutions	350,888	(307,857)
Depositors' accounts	(93,770)	1,130,851
Other liabilities	(149,309)	46,518
Net cash flows from (used in) operating activities	574,076	(371,583)
INVESTING ACTIVITIES		
Investments, net	(58,696)	(231,139)
Purchase of investment properties	(1,640)	(7,430)
Proceeds from sale of investment properties	1,013	22,473
Purchase of property and equipment	(27,892)	(23,271)
Proceeds from sale of property and equipment	5,886	1,630
Intangible assets, net	(4,365)	(3,604)
Proceeds from sale of subsidiaries	14,000	5,600
Purchase of investment in associates and joint ventures	(162)	(1,960)
Proceeds from sale of investment in associates and joint ventures	1,993	12,713
Dividend received	12,990	15,551
Net cash flows used in investing activities	(56,873)	(209,437)
FINANCING ACTIVITIES		
Cash dividends paid	12 (96,645)	(87,755)
Cash dividends paid to non-controlling interest	(1,554)	-
Net movement in treasury shares	446	2,980
Zakat paid	(12,578)	(9,682)
Net cash flows used in financing activities	(110,331)	(94,457)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	406,872	(675,477)
Cash and cash equivalents at 1 January	1,366,890	2,092,111
CASH AND CASH EQUIVALENTS AT 30 SEPTEMBER	1,773,762	1,416,634

The attached notes 1 to 18 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 and for the period ended 30 September 2018

1 INCORPORATION AND REGISTRATION

The interim condensed consolidated financial information of Kuwait Finance House K.S.C.P. ("the Bank") and subsidiaries (collectively "the Group") for the nine months period ended 30 September 2018 were authorised for issue by the Bank's Board of Directors on 8 October 2018.

The shareholders' annual ordinary general assembly held on 19 March 2018 approved the audited consolidated financial statements of the Group for the year ended 31 December 2017.

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. 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 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

The interim condensed consolidated financial information of the Group have been prepared in accordance with International Accounting Standard ("IAS") 34: Interim Financial Reporting, except as noted below:

The annual consolidated financial statements for the year ended 31 December 2017 were prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted for use by the State of Kuwait for financial services institutions regulated by the Central Bank of Kuwait (the "CBK"). The accounting policies used in the preparation of these interim condensed consolidated financial information are consistent with those used in the previous financial year, except for the adoption of IFRS 9 Financial Instruments, IFRS 15 Revenue from Contracts with Customers from 1 January 2018 and share based payments as explained below.

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 2017. The Group has adopted IFRS 9: Financial Instruments ("IFRS 9"), effective 1 January 2018, except for the requirement of Expected Credit Losses ("ECL") on financing facilities, which have been replaced by the CBK's requirement for credit losses. The Bank has also adopted IFRS 15: Revenue from Contracts with Customers ("IFRS 15") from 1 January 2018. Furthermore, the Bank has adopted share based payment policy during the period. The accounting policies for these new standards are disclosed in Note 3. Significant judgments and estimates relating to impairment are disclosed in Note 3 considering IFRS 9 first time adoption.

Further, results for the nine months period ended 30 September 2018, are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2018.

Other amendments to IFRSs which are effective for annual accounting period starting from 1 January 2018 did not have any material impact on the accounting policies, financial position or performance of the Group.

3 IMPACT OF CHANGES IN ACCOUNTING POLICIES DUE TO ADOPTION OF NEW STANDARDS/AND A NEW POLICY

The key changes to the Group's accounting policies resulting from its adoption of IFRS 9 and IFRS 15 and newly adopted accounting policy relating to share based payments which are summarised below:

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and is effective for annual periods commencing on or after 1 January 2018. IFRS 15 outlines a single comprehensive model of accounting for revenue arising from contracts with customers and supersedes current revenue guidance, which is found currently across several Standards and Interpretations within IFRS. It established a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group's adoption of IFRS 15 had no material impact on this interim condensed consolidated financial information of the Group.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
INFORMATION (UNAUDITED)

As at and for the period ended 30 September 2018

**3 IMPACT OF CHANGES IN ACCOUNTING POLICIES DUE TO ADOPTION OF NEW
STANDARDS/AND A NEW POLICY (continued)**

IFRS 9 – Financial Instruments

The Group has adopted IFRS 9 - Financial Instruments issued in July 2014 with a date of initial application of 1 January 2018, with the exception of requirements of the expected credit losses on financing facilities as noted above in Note 2. The requirements of IFRS 9 represent a significant change from IAS 39 Financial Instruments: Recognition and Measurement. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

Classification of financial assets and financial liabilities

To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

Business model assessment

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'Sell' business model and measured at FVPL. The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)

The expected frequency, value and timing of sales are also important aspects of the Group's assessment.

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

The SPPY test

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows represent Solely Payments of Principal and Yield (the 'SPPY test').

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

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

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

The Group reclassifies when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
INFORMATION (UNAUDITED)

As at and for the period ended 30 September 2018

**3 IMPACT OF CHANGES IN ACCOUNTING POLICIES DUE TO ADOPTION OF NEW
STANDARDS/AND A NEW POLICY (continued)**

IFRS 9 – Financial Instruments (continued)

3.1 Measurement categories of financial assets and liabilities

The IAS 39 measurement categories of financial assets (fair value through profit or loss (FVPL), available for sale (AFS), held-to-maturity and amortised cost) have been replaced by:

- Debt instruments at amortised cost
- Debt instruments at fair value through other comprehensive income (FVOCI), with gains or losses recycled to statement of income on derecognition
- Equity instruments at FVOCI, with no recycling of gains or losses to statement of income on derecognition
- Financial assets at FVPL

The accounting for financial liabilities remains largely the same as it was under IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVPL. Such movements are presented in OCI with no subsequent reclassification to the statement of income.

Under IFRS 9, embedded derivatives are no longer separated from a host financial asset. Instead, financial assets are classified based on the business model and their contractual terms. The accounting for derivatives embedded in financial liabilities and in non-financial host contracts has not changed.

3.1.1 Debt instruments at amortised cost

Classification

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVPL:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and yield (SPPY) on the principal amount outstanding.

Cash and balances with banks and financial institutions, short term murabaha and financing receivables are classified as debt instruments at amortised cost.

Subsequent measurement

Debt instruments measured at amortised cost are subsequently measured at amortised cost using the effective yield method adjusted for impairment losses, if any.

3.1.2 Debt instruments at FVOCI

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

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

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Profit income and foreign exchange gains and losses are recognised in statement of Income. The ECL calculation for Debt instruments at FVOCI is explained in Note 3.2. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to statement of income. The management of the Group classifies Investment in Sukuk as debt instruments at FVOCI.

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**3 IMPACT OF CHANGES IN ACCOUNTING POLICIES DUE TO ADOPTION OF NEW
STANDARDS/AND A NEW POLICY (continued)**

IFRS 9 – Financial Instruments (continued)

3.1 Measurement categories of financial assets and liabilities (continued)

3.1.3 Equity instruments at FVOCI

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

Gains and losses on these equity instruments are never recycled to statement of Income. Dividends are recognised in statement of income when the right of the payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment. Upon disposal cumulative gains or losses are reclassified from fair value reserve to retained earnings in the statement of changes in equity. The management of the Group classifies certain equity investments at FVOCI. These are included in the Investments in the statement of financial position.

3.1.4 Financial asset at FVPL

The Group classifies financial assets as at fair value through profit or loss when they have been purchased or issued primarily for short-term profit making through trading activities or form part of a portfolio of financial instruments that are managed together, for which there is evidence of a recent pattern of short-term profit taking. Held-for-trading assets are recorded and measured in the statement of financial position at fair value. In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Changes in fair values, profit income and dividends are recorded in statement of income according to the terms of the contract, or when the right to payment has been established.

Included in this classification are certain perpetual Sukuks, equities and derivatives that are not designated as hedging instruments in a hedge relationship, that have been acquired principally for the purpose of selling or repurchasing in the near term.

3.2 Impairment of financial assets

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with an ‘expected credit loss’ model. The management has applied the new impairment model to Sukuk investments excluding Financing receivables and short term murabaha for which the Group continues to apply impairment requirements under CBK regulations.

Under IFRS 9, credit losses are recognised earlier than under IAS 39. Key changes in the Group’s accounting policy for impairment of financial assets are listed below:

The Group applies three-stage approach to measuring expected credit losses (ECL). Assets migrate through the following three stages based on the change in credit quality since initial recognition.

Stage 1: 12 months ECL

For exposures where there has not been a significant increase in credit risk since initial recognition, the portion of the lifetime ECL associated with the probability of default events occurring within next 12 months is recognised.

Stage 2: Lifetime ECL – not credit impaired

For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, a lifetime ECL is recognised.

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3. IMPACT OF CHANGES IN ACCOUNTING POLICIES DUE TO ADOPTION OF NEW STANDARDS/AND A NEW POLICY (continued)

IFRS 9 – Financial Instruments (continued)

3.2 Impairment of financial assets (continued)

Stage 3: Lifetime ECL – credit impaired

Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. As this uses the same criteria as under IAS 39, the Groups methodology for specific provisions remains largely unchanged.

The Group recognises loss allowances for ECL on Sukuk investments. Balances with banks and financial institutions are low risk and considered fully recoverable and hence no ECL is required.

Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD). The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation. EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the financial instruments and potential changes to the current amounts allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. The LGD represents expected loss conditional on default, its expected value when realised and the time value of money.

Evidence that a financial asset is credit-impaired includes the following observable data:

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or past due event;
- The restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- The disappearance of an active market for a security because of financial difficulties.

Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition and are taken to Stage 3.

When determining whether the risk of default has increased significantly since initial recognition, the Group considers quantitative, qualitative information and back stop indicators and analysis based on the Group's historical experience and expert credit risk assessment, including forward-looking information.

Objective evidence that debt instrument is impaired includes whether any payment of principal or profit is overdue by more than 90 days or there are any known difficulties in the cash flows including the sustainability of the counterparty's business plan, credit rating downgrades, breach of original terms of the contract, its ability to improve performance once a financial difficulty has arisen, deterioration in the value of collateral etc. The Group assess whether objective evidence of impairment exists on an individual basis for each individually significant asset and collectively for others not deemed individually significant except for financing receivable and short term murabaha where minimum general provision is maintained as per CBK's instructions.

Incorporation of forward looking information

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

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

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3 IMPACT OF CHANGES IN ACCOUNTING POLICIES DUE TO ADOPTION OF NEW STANDARDS/AND A NEW POLICY (continued)

IFRS 9 – Financial Instruments (continued)

3.2 Impairment of financial assets (continued)

Hedge accounting

The general hedge accounting requirements of IFRS 9 retain the three types of hedge accounting mechanisms in IAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify as hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is no longer required.

The Group has elected to apply the hedge accounting requirements of IFRS 9.

3.3 Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below:

- a) Comparative periods have not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.
- b) The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
 - The determination of the business model within which a financial asset is held.
 - The designation of certain financial assets as measured at FVTPL.
 - The designation of certain investments in equity instruments not held for trading as at FVOCI.

Impact of Adopting IFRS 9

The impact of this change in accounting policy as at 1 January 2018 on retained earnings and Fair value reserve is presented in table below:

	<i>KD 000's</i>	
	<i>Retained earnings</i>	<i>Fair value reserve</i>
Closing balance under IAS 39 (31 December 2017)	88,716	19,151
<i>Impact on reclassification and re-measurements:</i>		
Investment securities (debt and equity) from available-for-sale to FVPL	15,883	(15,883)
Investment securities (equity) from available-for-sale to FVOCI	-	4,393
IFRS 9 adjustment on investment in associates	(4,565)	-
	<u>11,318</u>	<u>(11,490)</u>
<i>Impact on recognition of Expected Credit Losses (ECL) other than financing receivable and short term murabaha:</i>		
ECL under IFRS 9 for investment in Sukuk at FVOCI	(1,301)	-
ECL under IFRS 9 on trade receivables	(746)	-
	<u>(2,047)</u>	<u>-</u>
Opening balance under IFRS 9 on date of initial application of 1 January 2018	<u>97,987</u>	<u>7,661</u>

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3 IMPACT OF CHANGES IN ACCOUNTING POLICIES DUE TO ADOPTION OF NEW STANDARDS/AND A NEW POLICY (continued)

IFRS 9 – Financial Instruments (continued)

3.3 Transition (continued)

3.3.1 Classification of financial assets on the date of initial application of IFRS 9

The application of these policies resulted in the reclassifications and re-measurements of investments in equities and Sukuk. The following table reconciles the carrying amounts under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on 1 January 2018.

IAS 39	31 December 2017 KD 000's	IFRS 9	31 December 2017 KD 000's	Re- measurement KD 000's	1 January 2018 KD 000's
Equities		FVPL	168,235	-	168,235
Financial assets available for sale	264,645	FVOCI	96,410	4,393	100,803
		Total	264,645	4,393	269,038
Investment in Sukuk		FVOCI	1,418,033	(1,527)	1,416,506
Classified as financial assets available for sale	1,428,655	FVPL	10,622	-	10,622
			1,428,655	(1,527)	1,427,128

Impairment allowances

The following table reconciles the closing impairment allowance in accordance with IAS 39 as at 31 December 2017 to the opening ECL allowance determined in accordance with IFRS 9 as at 1 January 2018.

	31 December 2017	Re- classification	Re- measurements	1 January 2018
Investment in Sukuk and trade receivables	1,308	-	2,273	3,581

The following notes relate to the IFRS 9 disclosures for the period ended 30 September 2018.

ECL and staging of financial instruments

Credit loss expense

The table below shows the ECL charge on financial instruments for the period ended 30 September 2018 recorded in the interim condensed consolidated statement of income:

	Stage 1	Stage 2	Stage 3	Total
Investment in Sukuk and trade receivables	2,403	-	-	2,403

Movement of ECL

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit impaired	Total
At 1 January 2018	2,273	-	1,308	-	3,581
Net re-measurements	2,403	-	-	-	2,403
At 30 September 2018	4,676	-	1,308	-	5,984

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

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As at and for the period ended 30 September 2018

3 IMPACT OF CHANGES IN ACCOUNTING POLICIES DUE TO ADOPTION OF NEW STANDARDS/AND A NEW POLICY (continued)

3.3 Transition (continued)

3.3.1 Classification of financial assets on the date of initial application of IFRS 9 (continued)

Credit risk profile

The following table contains an analysis of the gross credit risk exposure of investment in sukuk.

	<i>KD 000's</i>				
	<i>Stage 1 12-month ECL</i>	<i>Stage 2 Lifetime ECL</i>	<i>Stage 3 Lifetime ECL</i>	<i>Purchased credit impaired</i>	<i>Total</i>
Investments in Sukuk					
High Grade	1,255,277	-	-	-	1,255,277
Standard Grade	224,541	-	-	-	224,541
Past due or impaired	-	-	1,308	-	1,308
Gross carrying amount	1,479,818	-	1,308	-	1,481,126
ECL allowance	(3,930)	-	(1,308)	-	(5,238)

Movement in gross carrying amount

	<i>KD 000's</i>				
	<i>Stage 1 12-month ECL</i>	<i>Stage 2 Lifetime ECL</i>	<i>Stage 3 Lifetime ECL</i>	<i>Purchased credit impaired</i>	<i>Total</i>
At 1 January 2018	1,418,033	-	1,308	-	1,419,341
Net movement during the period	61,785	-	-	-	61,785
At 30 September 2018	1,479,818	-	1,308	-	1,481,126

3.4 Share based payments

The Group operates an employees' share purchase plan for certain eligible employees, whereby employees render services as consideration for equity instruments (equity-settled transactions) and cash (cash-settled transactions).

Equity-settled transactions

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made. That cost is recognised in employee benefits expense, together with a corresponding increase in equity (Reserves), over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the interim condensed consolidated statement of income represents the movement in cumulative expense recognised during the period.

Cash-settled transactions

A liability is recognised for the fair value of cash-settled transactions. The fair value is measured initially and at each reporting date up to and including the settlement date, with changes in fair value recognised in employee benefits expense. The fair value is expensed over the period until the vesting date with recognition of a corresponding liability.

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

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4 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 2018. 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 2018.

5 PROVISIONS AND IMPAIRMENT

During the period ended 30 September 2018, full impairment against certain real estate investments in GCC amounting to KD 63,759 thousand was recorded due to deterioration in the recoverable amount in view of market outlook.

6 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 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</i>		<i>Nine months ended</i>	
	<i>30 September 2018</i>	<i>30 September 2017</i>	<i>30 September 2018</i>	<i>30 September 2017</i>
Basic and diluted earnings per share:				
Profit for the period attributable to shareholders of the Bank (thousand KD)	73,885	56,220	169,102	137,865
Weighted average number of shares outstanding during the period (thousand shares)	6,253,977	6,251,406	6,253,754	6,250,641
Basic and diluted earnings per share attributable to the shareholders of the Bank	11.81 fils	8.99 fils	27.04 fils	22.06 fils
Basic and diluted earnings per share from continuing operations:				
Profit for the period from continuing operations attributable to shareholders of the Bank (thousand KD)	73,673	56,566	168,392	139,274
Weighted average number of shares outstanding during the period (thousand shares)	6,253,977	6,251,406	6,253,754	6,250,641
Basic and diluted earnings per share from continuing operation attributable to the shareholders of the Bank	11.78 fils	9.05 fils	26.93 fils	22.28 fils

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

The employees' share based payments plan has no dilutive impact on earnings per share.

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

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7 TAXATION

	<i>KD 000's</i>			
	<i>Three months ended</i>		<i>Nine months ended</i>	
	<i>30 September 2018</i>	<i>30 September 2017</i>	<i>30 September 2018</i>	<i>30 September 2017</i>
Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)	(773)	(586)	(1,571)	(1,433)
National Labour Support Tax (NLST)	(1,312)	(1,155)	(2,829)	(2,675)
Zakat (based on Zakat Law No. 46/2006)	(767)	(555)	(1,600)	(1,284)
Taxation related to subsidiaries	(8,951)	(6,474)	(25,328)	(18,905)
	<u>(11,803)</u>	<u>(8,770)</u>	<u>(31,328)</u>	<u>(24,297)</u>

8 DISCONTINUED OPERATIONS

- (a) The Bank has lost the control over Aref Investment Group S.A.K. (Closed) (“Aref”), through loss of its substantive rights as a result of recent settlement of a portion of the facilities formerly provided to Aref by the Bank, bringing the Bank’s credit exposure to Aref below fifty percent of Aref’s loans and financing payables.

In view of these developments, the management of the Bank has re-assessed its control over Aref and concluded that it is no longer able to exercise such control. Accordingly, the Bank has re-classified Aref from Subsidiary classified as an asset held for sale and recognized its interest ownership in Aref as an investment in associate.

The deconsolidation of Aref has resulted in reduction in the non-current assets classified as held for sale, liabilities directly associated with the assets classified as held for sale and non-controlling interests reported in the interim condensed consolidated statement of financial position of the Bank by KD 308,045 thousand, KD185,319 thousand, and KD 43,972 thousand respectively.

- (b) During the prior year, the Board of Directors of a subsidiary approved to sell its interest in New Technology Bottling Company K.S.C (Closed) (NTBC), an indirect subsidiary of the Bank. As a result, the interim condensed consolidated statement of financial position of the Bank as at 30 September 2018 presents the assets and liabilities of NTBC amounting to KD 17,346 thousand and KD 2,262 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”.

9 SHARE BASED PAYMENTS

During the period long-term incentive scheme plan (LTIS) was approved by the Board of Directors and authorized by the bank’s extraordinary general assembly and ordinary assembly. As per the approved LTIS terms, scheme will operate on a rolling yearly employees’ share purchase plan and cash settled plan allocation where new plans will be rolled out to eligible employees every year. Shares issued and cash settled under each plan will normally vest at the end of three years from the allocation date subject to agreed performance conditions approved by the Board of Directors being met.

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

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10 RESERVES

The movement of reserves is analysed as follows:

	30 September 2018						KD 000's	
	Statutory reserve	Voluntary reserve	Retained earnings	Treasury shares reserve	Fair value reserve	Foreign exchange translation reserve	Other reserves	Total
Balance at 1 January 2018	274,841	274,841	88,716	6,736	19,151	(163,822)	(34,362)	466,101
Transition adjustment on adoption of IFRS 9 at 1 January 2018 (Note 3)	-	-	9,271	-	(11,490)	-	-	(2,219)
Restated balance at 1 January 2018	274,841	274,841	97,987	6,736	7,661	(163,822)	(34,362)	463,882
Profit for the period	-	-	169,102	-	-	-	-	169,102
Other comprehensive loss	-	-	-	-	(20,630)	(98,762)	-	(119,392)
Total comprehensive income (loss)	-	-	169,102	-	(20,630)	(98,762)	-	49,710
Zakat	-	-	(12,578)	-	-	-	-	(12,578)
Share based payments (Note 9)	-	-	-	-	-	-	368	368
Net movement in treasury shares	-	-	-	97	-	-	-	97
Deconsolidation of a subsidiary (Note 8)	-	-	(10,938)	-	(2,292)	(341)	13,230	(341)
Disposal of a subsidiary	-	-	-	-	-	(290)	-	(290)
Balance at 30 September 2018	274,841	274,841	243,573	6,833	(15,261)	(263,215)	(20,764)	500,848

	30 September 2017						KD 000's	
	Statutory reserve	Voluntary reserve	Retained earnings	Treasury shares reserve	Fair value reserve	Foreign exchange translation reserve	Other reserves	Total
Balance at 1 January 2017	255,564	255,564	107,099	6,735	25,728	(141,649)	(34,389)	474,652
Profit for the period	-	-	137,865	-	-	-	-	137,865
Other comprehensive income (loss)	-	-	-	-	2,050	(9,969)	-	(7,919)
Total comprehensive income (loss)	-	-	137,865	-	2,050	(9,969)	-	129,946
Zakat	-	-	(9,682)	-	-	-	-	(9,682)
Net movement on treasury shares	-	-	-	(9)	-	-	-	(9)
Balance at 30 September 2017	255,564	255,564	235,282	6,726	27,778	(151,618)	(34,389)	594,907

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11 CASH AND CASH EQUIVALENTS

	<i>KD 000's</i>		
	<i>30 September 2018</i>	<i>(Audited) 31 December 2017</i>	<i>30 September 2017</i>
Cash	210,724	258,590	190,748
Balances with Central Banks	637,136	591,716	618,985
Balances with banks and financial institutions – current accounts	417,746	412,150	419,525
Cash and balances with banks and financial institutions	<u>1,265,606</u>	<u>1,262,456</u>	<u>1,229,258</u>
Short term murabaha maturing within 3 months of contract date	909,827	805,930	751,281
Cash with banks attributable to discontinued operations	-	14,606	21,252
Less: Statutory deposits with Central Banks	<u>(401,671)</u>	<u>(716,102)</u>	<u>(585,157)</u>
Cash and cash equivalents	<u><u>1,773,762</u></u>	<u><u>1,366,890</u></u>	<u><u>1,416,634</u></u>

12 SHARE CAPITAL, ISSUE OF BONUS SHARES AND CASH DIVIDENDS

The ordinary general assembly of the Bank's shareholders held on 19 March 2018, approved bonus shares of 10% (2016: 10%) on outstanding shares amounting to KD 57,657 thousand (2016: KD 52,415 thousand) and cash dividends of 17 fils per share (2016: 17 fils per share) amounting to KD 96,645 thousand (2016: KD 87,755 thousand) proposed to the Bank's shareholders for the year ended 31 December 2017.

Extraordinary general assembly of Bank's Shareholders held on 19 March 2018 has approved the increase of authorized and issued share capital through issuing bonus shares.

Accordingly, the authorised, issued, and fully paid share capital as at 30 September 2018 comprise of 6,342,262,911 shares (31 December 2017: 5,765,693,556 and 30 September 2017: 5,765,693,556) shares of 100 fils each.

13 DIRECTORS' FEES

In the ordinary general assembly meeting of the shareholders of the Bank for the year ended 31 December 2017 held on 19 March 2018, the shareholders approved directors' fees proposed for the year ended 31 December 2017.

14 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 followings:

	<i>KD 000's</i>		
	<i>30 September 2018</i>	<i>(Audited) 31 December 2017</i>	<i>30 September 2017</i>
Acceptances and letters of credit	167,631	189,520	174,624
Letters of guarantee	1,724,053	1,897,510	1,931,030
Contingencies	<u>1,891,684</u>	<u>2,087,030</u>	<u>2,105,654</u>
Capital and other commitments	<u><u>349,715</u></u>	<u><u>408,254</u></u>	<u><u>523,505</u></u>

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15 RELATED PARTY TRANSACTIONS

Certain related parties (Major shareholders, directors and executive employees, officers of the Group, their immediate relatives, 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.

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>30 September 2018</i>	<i>Total (Audited) 31 December 2017</i>	<i>30 September 2017</i>
Related parties							
Financing receivables	-	217,916	3,752	6,339	228,007	240,725	266,548
Due to banks and financial institutions	1,338,351	36,479	-	-	1,374,830	1,387,400	1,375,704
Depositors' accounts	-	89,593	9,484	21,975	121,052	88,695	113,669
Contingencies and commitments	486	19,702	1	3,122	23,311	12,473	13,230
Investments managed by related party	-	-	-	33,430	33,430	33,281	33,325

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>Total</i>	
					<i>30 September 2018</i>	<i>30 September 2017</i>
Financing income	-	5,003	107	334	5,444	5,982
Fee and commission income	-	428	7	65	500	88
Finance cost and estimated distribution to depositors	22,203	1,353	72	906	24,534	19,488

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15 RELATED PARTY TRANSACTIONS (continued)

Details of the interests of the Groups, Board Members, Executive Officers and their immediate relatives are as follows:

	KD 000's							
	<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>(Audited)</i>	<i>(Audited)</i>	<i>(Audited)</i>		
30 September 2018	31 December 2017	30 September 2017	30 September 2018	31 December 2017	30 September 2017	30 September 2018	31 December 2017	30 September 2017
Board Members								
Finance facilities	20	26	24	12	13	15	2,162	2,466
Credit cards	13	16	16	4	4	4	47	52
Deposits	57	68	70	88	97	102	19,705	20,345
Collateral against finance facilities	6	7	6	3	3	4	3,314	3,559
Executive Officers								
Finance facilities	38	46	46	11	12	12	2,226	2,577
Credit cards	24	35	40	5	6	8	183	170
Deposits	73	79	79	74	84	86	7,874	7,120
Collateral against finance facilities	9	12	12	4	4	5	4,807	5,515

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

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15 RELATED PARTY TRANSACTIONS (continued)

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 2018</i>	<i>30 September 2017</i>
Salaries, allowances and bonuses of key management personnel	13,175	14,356
Termination & long term benefits of key management personnel	802	947
Remuneration of chairman and board members	352	421
	<u>14,329</u>	<u>15,724</u>

16 SEGMENTAL ANALYSIS

Segment information

	<i>KD 000's</i>				
	<i>Treasury</i>	<i>Retail and private Banking</i>	<i>Corporate Banking</i>	<i>Investment</i>	<i>Total</i>
30 September 2018					
Total assets	4,353,654	5,765,275	4,993,243	2,196,136	17,308,308
Total liabilities	3,419,713	9,235,428	2,098,771	577,390	15,331,302
Operating (loss) income	(7,700)	245,679	189,570	162,056	589,605
Provisions and impairment	(981)	(16,379)	(20,215)	(93,585)	(131,160)
(Loss) profit for the period	(17,169)	100,042	122,457	(3,855)	201,475

	<i>KD 000's</i>				
	<i>Treasury</i>	<i>Retail and private Banking</i>	<i>Corporate Banking</i>	<i>Investment</i>	<i>Total</i>
30 September 2017					
Total assets	4,170,054	5,524,304	5,138,900	2,567,995	17,401,253
Total liabilities	3,249,312	9,097,689	2,204,593	766,193	15,317,787
Operating income	26,534	222,049	166,066	110,405	525,054
Provisions and impairment	(2,172)	(11,885)	(53,391)	(57,652)	(125,100)
Profit (loss) for the period	17,215	94,208	56,279	(13,387)	154,315

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

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As at and for the year ended 30 September 2018

17 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 financial assets and financial liabilities as at 30 September 2018:

				<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	-	35,345	-	35,345
Investment in Sukuk	1,204,492	-	271,396	1,475,888
Equity - FVOCI	27,707	-	79,785	107,492
Equity - FVPL	61,857	54,536	43,351	159,744
<i>Derivative financial assets:</i>				
Forward contracts	-	6,530	-	6,530
Profit rate swaps	-	2,465	-	2,465
Currency swaps	-	11,602	-	11,602
	<u>1,294,056</u>	<u>110,478</u>	<u>394,532</u>	<u>1,799,066</u>

				<i>KD 000's</i>
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	-	5,771	-	5,771
Profit rate swaps	-	77	-	77
Currency swaps	-	6,263	-	6,263
Embedded precious metals	-	145	-	145
	<u>-</u>	<u>12,256</u>	<u>-</u>	<u>12,256</u>

The following table provides the fair value measurement hierarchy of the Group financial assets and financial liabilities as at 31 December 2017:

				<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	-	39,648	-	39,648
Financial assets available for sale	81,692	57,986	28,465	168,143
Investment in Sukuk	1,132,621	-	296,034	1,428,655
<i>Derivative financial assets:</i>				
Forward contracts	-	1,369	-	1,369
Profit rate swaps	-	114	-	114
Currency swaps	-	817	-	817
	<u>1,214,313</u>	<u>99,934</u>	<u>324,499</u>	<u>1,638,746</u>

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17 FAIR VALUES (continued)

	<i>KD 000's</i>			
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	-	1,890	-	1,890
Currency swaps	-	10,786	-	10,786
Embedded precious metals	-	121	-	121
	<u>-</u>	<u>12,797</u>	<u>-</u>	<u>12,797</u>

The following table provides the fair value measurement hierarchy of the Group financial assets and financial liabilities as at 30 September 2017:

	<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>
<i>Venture capital at fair value through statement of income</i>				
Financial assets available for sale	77,905	49,924	27,433	155,262
Investment in Sukuk	1,023,440	-	334,721	1,358,161
<i>Derivative financial assets:</i>				
Forward contracts	-	1,320	-	1,320
Profit rate swaps	-	158	-	158
Currency swaps	-	9,267	-	9,267
	<u>1,101,345</u>	<u>111,175</u>	<u>362,154</u>	<u>1,574,674</u>

	<i>KD 000's</i>			
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	-	1,223	-	1,223
Profit rate swaps	-	240	-	240
Currency swaps	-	10,585	-	10,585
Embedded precious metals	-	101	-	101
	<u>-</u>	<u>12,149</u>	<u>-</u>	<u>12,149</u>

No transfers have been made between the levels of hierarchy.

Level 3 investments included unquoted Sukuk of KD 271,396 thousand (31 December 2017: KD 296,034 thousand) and unquoted equity investments of KD 123,136 thousand (31 December 2017: KD 28,465 thousand). Sukuk included in this category represent Sukuk issued by sovereign entities, financial institutions and corporates. The fair values of unquoted Sukuk are estimated using discounted cash flow method using discount rate (ranging from 2.6% to 8.0%). Unquoted equity investments are fair valued using valuation techniques that are appropriate in the circumstances. Valuation techniques include discounted cash flow models adjusted, 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 interim condensed consolidated statement of financial position or the interim condensed consolidated statement of income or the interim condensed 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 and unquoted sukuk were altered by 5%.

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17 FAIR VALUES (continued)

The following table below shows a reconciliation of the opening and the closing balance of level 3 financial assets measured at fair value:

	<u>2018</u>	<u>KD 000's</u> <u>2017</u>
As at 1 January	324,499	357,507
IFRS-9 impact	100,676	-
	<u>425,175</u>	<u>357,507</u>
Re-measurement recognised in other comprehensive income	(4,559)	1,108
(Disposal) purchases, net	(26,084)	3,539
	<u>394,532</u>	<u>362,154</u>

18 FIDUCIARY ASSETS

The aggregate value of assets held in a trust or fiduciary capacity by the Group at 30 September 2018 amounted to KD 1,093,098 thousand (31 December 2017: KD 1,235,457 thousand and 30 September 2017: KD 1,101,348 thousand).

Fees and commission income include fees of KD 3,155 thousand (30 September 2017: KD 3,855 thousand) arising from trust and fiduciary activities.