

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

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2016



Building a better
working world

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Kuwait Finance House K.S.C.P. (“the Bank”) and its subsidiaries (collectively “the Group”), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted for use by the State of Kuwait.

Basis for Opinion

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

Key Audit Matters

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

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

Key Audit Matters (continued)

Impairment of financing receivables

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

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

Due to the significance of financing receivables (representing 49.55% of the total assets) and the related estimation uncertainty, this is considered a key audit matter. The basis of the impairment provision policy is presented in the accounting policies and in note 10 to the consolidated financial statements.

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

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

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

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

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

Key Audit Matters (continued)

Impairment of associates and joint ventures

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

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

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

Impairment test of investment properties and trading properties

As at 31 December 2016, investment properties and trading properties amounting to KD 777,142 thousand represents 4.71% of total assets. The valuation of real estate properties was significant to our audit because this process is complex and requires judgement. Furthermore, there is an increased risk of impairment due to deteriorated market outlook in various geographical areas, in which the Group operates.

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

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

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

Key Audit Matters (continued)

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

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

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

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

The disclosure relating to Islamic derivative financial instruments is given in note 27 to the consolidated financial statements.

Other information included in the Annual Report of the Group for the year ended 31 December 2016

Management is responsible for the other information. Other information consists of the information included in the Annual Report of the Group for the year ended 31 December 2016, other than the consolidated financial statements and our auditors' report thereon. We obtained the report of the Bank's Board of Directors, prior to the date of our auditors' report, and we expect to obtain the remaining sections of the Group's Annual Report for the year ended 31 December 2016 after the date of our auditors' report.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

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

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

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

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

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

Auditors' Responsibilities for the Audit of Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion, proper books of account have been kept by the Bank and the consolidated financial statements, together with the contents of the report of the Bank's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the Central Bank of Kuwait ("CBK") as stipulated in CBK Circular Nos. 2/RB, RBA/336/2014 dated 24 June 2014 and 2/I.B.S./343/2014 dated 21 October 2014 respectively, the Companies Law No 1 of 2016, and its executive regulations, and by the Bank's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the CBK as stipulated in CBK Circular Nos. 2/RB, RBA /336/2014 dated 24 June 2014 and 2/I.B.S. /343/2014 dated 21 October 2014 respectively, the Companies Law No 1 of 2016, and its executive regulations, or of the Bank's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2016 that might have had a material effect on the business of the Bank or on its financial position.

We further report that, during the course of our audit, we have not become aware of any violations of the provisions of Law No 32 of 1968, as amended, concerning currency, the CBK and the organisation of banking business, and its related regulations during the year ended 31 December 2016 that might have had a material effect on the business of the Bank or on its financial position.



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AL-WAZZAN & CO.

10 January 2017
Kuwait

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

CONSOLIDATED STATEMENT OF INCOME

Year ended 31 December 2016

		<i>KD 000's</i>	
	<i>Notes</i>	2016	2015
CONTINUING OPERATIONS			
INCOME			
Financing income		717,886	695,080
Finance cost and distribution to depositors		(282,931)	(263,399)
Net finance income		434,955	431,681
Investment income	3	78,885	108,259
Fees and commissions income		84,522	81,886
Net gain from foreign currencies		23,181	25,424
Other income	4	38,107	55,693
TOTAL OPERATING INCOME		659,650	702,943
EXPENSES			
Staff costs		(173,663)	(171,966)
General and administrative expenses		(84,457)	(80,525)
Depreciation and amortization		(36,834)	(77,977)
TOTAL OPERATING EXPENSES		(294,954)	(330,468)
NET OPERATING INCOME		364,696	372,475
Provisions and impairment	5	(140,628)	(183,561)
PROFIT BEFORE TAXATION AND PROPOSED DIRECTORS' FEES		224,068	188,914
Taxation	6	(23,193)	(20,433)
Proposed directors' fees	25	(772)	(610)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		200,103	167,871
DISCONTINUED OPERATIONS			
(Loss) /profit after tax for the year from discontinued operations	18	(21,594)	21,899
Impairment loss recognised on discontinued operation	18	(16,570)	-
(Losses)/profit after tax for the year from discontinued operations		(38,164)	21,899
PROFIT FOR THE YEAR		161,939	189,770
Attributable to:			
Shareholders of the Bank		165,228	145,841
Non-controlling interests		(3,289)	43,929
		161,939	189,770
BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO THE SHAREHOLDERS OF THE BANK	7	32.01 fils	28.27 fils

The attached notes 1 to 37 form part of these consolidated financial statements.

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2016

	Note	<u>2016</u>	<u>KD 000's</u> 2015
Profit for the year		161,939	189,770
Other comprehensive (loss) income			
<i>Other comprehensive (loss) income items that are or may be reclassified to consolidated statement of income in subsequent periods:</i>			
Change in fair value of financial assets available for sale		(22,023)	991
Realised loss (gain) on financial assets available for sale		6,336	(2,484)
Impairment losses transferred to consolidated statement of income	5	26,927	16,320
Share of other comprehensive (loss) income of associates and joint ventures		(2,888)	647
Exchange differences on translation of foreign operations		(68,880)	(62,679)
Other comprehensive loss for the year		(60,528)	(47,205)
Total comprehensive income		101,411	142,565
Attributable to:			
Shareholders of the Bank		128,811	123,183
Non-controlling interests		(27,400)	19,382
		101,411	142,565

The attached notes 1 to 37 form part of these consolidated financial statements.

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

		<i>KD 000's</i>	
	<i>Notes</i>	2016	2015
ASSETS			
Cash and balances with banks and financial institutions	8	1,494,657	1,599,712
Short-term murabaha	9	2,877,241	3,193,930
Financing receivables	10	8,175,789	8,095,492
Trading properties		186,341	214,362
Investments	11	1,456,124	1,314,756
Investment in associates and joint ventures	12,13	469,468	534,856
Investment properties	14	590,801	580,499
Other assets	15	548,652	469,309
Intangible assets and goodwill	16	39,175	47,960
Property and equipment		216,212	264,181
Leasehold rights	17	-	179,627
Assets classified as held for sale	18	444,893	-
TOTAL ASSETS		16,499,353	16,494,684
LIABILITIES			
Due to banks and financial institutions	20	2,871,651	3,052,947
Depositors' accounts	21	10,662,140	10,709,386
Other liabilities	22	699,245	676,862
Liabilities directly associated with assets classified as held for sale	18	227,492	-
TOTAL LIABILITIES		14,460,528	14,439,195
EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE BANK			
Share capital	24	524,154	476,504
Share premium		720,333	720,333
Proposed issue of bonus shares	25	52,415	47,650
Treasury shares	24	(48,824)	(50,173)
Reserves	23	474,652	505,067
		1,722,730	1,699,381
Proposed cash dividend	25	87,755	79,755
TOTAL EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE BANK		1,810,485	1,779,136
Non-controlling interests		228,340	276,353
TOTAL EQUITY		2,038,825	2,055,489
TOTAL LIABILITIES AND EQUITY		16,499,353	16,494,684


 HAMAD ABDUL MOHSEN AL-MARZOUQ
 (CHAIRMAN)


 MAZIN SAAD AL-NAHEDH
 (GROUP CHIEF EXECUTIVE OFFICER)

The attached notes 1 to 37 form part of these consolidated financial statements.

Kuwait Finance House K.S.C.P. and Subsidiaries
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2016

	Attributable to the shareholders of the Bank							KD 000's		
	Share capital	Share premium	Proposed issue of bonus shares	Treasury shares	Reserves (Note 23)	Subtotal	Proposed cash dividend	Subtotal	Non-controlling interests	Total equity
Balance at 1 January 2016	476,504	720,333	47,650	(50,175)	505,067	1,699,381	79,755	1,779,136	276,353	2,055,489
Profit for the year	-	-	-	-	165,228	165,228	-	165,228	(3,289)	161,939
Other comprehensive loss	-	-	-	-	(36,417)	(36,417)	-	(36,417)	(24,111)	(60,528)
Total comprehensive income (loss)	-	-	-	-	128,811	128,811	-	128,811	(27,400)	101,411
Issue of bonus shares	47,650	-	(47,650)	-	-	-	-	-	-	-
Zakat paid	-	-	-	-	(7,914)	(7,914)	-	(7,914)	-	(7,914)
Cash dividends paid	-	-	-	-	-	-	(79,755)	(79,755)	-	(79,755)
Distribution of profit: (Note 25)	-	-	52,415	-	(52,415)	-	-	-	-	-
Proposed issue of bonus shares	-	-	-	-	(87,755)	(87,755)	87,755	-	-	-
Proposed cash dividends	-	-	-	1,349	(349)	1,000	-	1,000	-	1,000
Net movement in treasury shares	-	-	-	-	-	-	-	-	(13,132)	(13,132)
Deconsolidation of a subsidiary	-	-	-	-	-	-	-	-	(9,207)	(20,000)
Acquisition of non-controlling interests	-	-	-	-	(10,793)	(10,793)	-	(10,793)	(1,596)	(1,596)
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	3,322	3,322
Net other change in non-controlling interests	-	-	-	-	-	-	-	-	-	-
At 31 December 2016	524,154	720,333	52,415	(48,824)	474,652	1,722,730	87,755	1,810,485	228,340	2,038,825

The attached notes 1 to 37 form part of these consolidated financial statements.

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

Year ended 31 December 2016

	Attributable to the shareholders of the Bank							Non-controlling interests	Total equity	
	Share capital	Share premium	Proposed issue of bonus shares	Treasury shares	Reserves (Note 23)	Subtotal	Proposed cash dividend			Subtotal
Balance 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 year	-	-	-	-	145,841	145,841	-	145,841	43,929	189,770
Other comprehensive loss	-	-	-	-	(22,658)	(22,658)	-	(22,658)	(24,547)	(47,205)
Total comprehensive income	-	-	-	-	123,183	123,183	-	123,183	19,382	142,565
Issue of bonus shares	43,319	-	(43,319)	-	-	-	-	-	-	-
Zakat paid	-	-	-	-	(6,327)	(6,327)	-	(6,327)	-	(6,327)
Cash dividends paid	-	-	-	-	-	-	(63,935)	(63,935)	-	(63,935)
Distribution of profit: (Note 2.5)	-	-	-	-	-	-	-	-	-	-
Proposed issue of bonus shares	-	-	47,650	-	(47,650)	-	-	-	-	-
Proposed cash dividends	-	-	-	-	(79,755)	(79,755)	79,755	-	-	-
Net movement in treasury shares	-	-	-	2,324	6	2,330	-	2,330	-	2,330
Deconsolidation of a subsidiary	-	-	-	-	(7,029)	(7,029)	-	(7,029)	(104,515)	(111,544)
Acquisition of non-controlling interests	-	-	-	-	(14,676)	(14,676)	-	(14,676)	14,676	-
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	(6,064)	(6,064)
Net other change in non-controlling interests	-	-	-	-	-	-	-	-	1,423	1,423
At 31 December 2015	476,504	720,333	47,650	(50,173)	505,067	1,699,381	79,755	1,779,136	276,353	2,055,489

KD 000's

The attached notes 1 to 37 form part of these consolidated financial statements.

Kuwait Finance House K.S.C.P. and Subsidiaries
CONSOLIDATED STATEMENT OF CASH FLOWS
Year ended 31 December 2016

	<i>Notes</i>	<i>2016</i>	<i>KD 000's</i> <i>2015</i>
OPERATING ACTIVITIES			
Profit (loss) for the year			
- Continuing operations		200,103	167,871
- Discontinued operations		(38,164)	21,899
Adjustments to reconcile profit to net cash flows:			
Depreciation and amortisation		36,834	77,977
Provision and impairment		157,198	183,561
Dividend income	3	(5,681)	(5,632)
Gain on sale of investments	3	(6,656)	(3,561)
Gain on real estate investments	3	(12,209)	(73,669)
Share of results of associates and joint ventures	3	(10,934)	975
Other investment income	3	(30,067)	(14,682)
		<u>290,424</u>	<u>354,739</u>
Changes in operating assets and liabilities:			
(Increase) decrease in operating assets:			
Financing receivables and short term murabaha		(263,769)	100,740
Trading properties		16,309	(38,892)
Other assets		(264,698)	158,052
Statutory deposit with Central Banks		44,410	12,340
Increase (decrease) in operating liabilities:			
Due to banks and financial institutions		(69,927)	(177,284)
Depositors' accounts		(47,246)	21,017
Other liabilities		128,632	(129,494)
Net cash flows (used in)/ from operating activities		<u>(165,865)</u>	<u>301,218</u>
INVESTING ACTIVITIES			
(Purchase of)/ proceeds from sale of investments, net		(171,676)	42,774
Purchase of investment properties		(20,150)	(47,846)
Proceeds from sale of investment properties		19,465	50,781
Purchase of property and equipment		(58,195)	(122,620)
Proceeds from sale of property and equipment		25,167	61,602
Intangible assets, net		(5,068)	(10,351)
Leasehold rights, net		(13,307)	-
Purchase of investments in associates and joint ventures		(9,169)	(19,569)
Proceeds from sale/ redemption of investments in associates and joint ventures		15,884	8,471
Deconsolidation of a subsidiary		(1,450)	(63,582)
Dividend received		11,856	12,680
Acquisition of non-controlling interest		(20,000)	-
Net cash flows used in investing activities		<u>(226,643)</u>	<u>(87,660)</u>
FINANCING ACTIVITIES			
Cash dividends paid		(79,755)	(63,935)
Zakat paid		(7,914)	(6,327)
Net movement in treasury shares		1,000	2,330
Dividend paid to non-controlling interests		(1,596)	(6,064)
Net cash flows used in financing activities		<u>(88,265)</u>	<u>(73,996)</u>
(DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS		(480,773)	139,562
Cash and cash equivalents at 1 January		2,572,884	2,433,322
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	8	<u>2,092,111</u>	<u>2,572,884</u>

The attached notes 1 to 37 form part of these consolidated financial statements.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

1 CORPORATE INFORMATION

The consolidated financial statements of the Group for the year ended 31 December 2016 were authorised for issue in accordance with a resolution of the Bank's Board of Directors on 10 January 2017. The general assembly of the shareholders of the Bank has the power to amend these consolidated financial statements after issuance.

The Group comprises Kuwait Finance House K.S.C.P. ("the Bank") and its consolidated subsidiaries (collectively "the Group") as noted in Note 19. 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 as Kuwaiti registered Islamic bank whose shares are listed on the Kuwait Stock Exchange. 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 practicing usury. Trading activities are conducted on the basis of purchasing various goods and selling them on murabaha at negotiated profit margins and 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.

2 SIGNIFICANT ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

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

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

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

2.2 PRESENTATION OF FINANCIAL STATEMENTS

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

2.3 CHANGES IN ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the previous financial year, except for the following amended IFRS recently issued by the International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRIC) interpretations effective as of 1 January 2016.

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant *IFRS 3 Business Combinations* principles for business combination accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation if joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are applied prospectively. These amendments do not have any impact on the Group as there has been no interest acquired in a joint operation during the year.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 CHANGES IN ACCOUNTING POLICIES (continued)

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify the principle in *IAS 16 Property, Plant and Equipment* and *IAS 38 Intangible Assets* that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is a part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are applied prospectively and do not have any impact on the Group, given that it has not used a revenue-based method to depreciate its non-current assets.

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1;
- That specific line items in the statement of income, statement of other comprehensive income and the statement of financial position may be disaggregated;
- That entities have flexibility as to the order in which they present the notes to financial statements;
- That the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to statement of income.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statements of income and other comprehensive income. These amendments do not have any impact on the Group.

Annual Improvements 2012-2014 Cycle

These improvements do not have any impact on the Group. They include:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

IFRS 7 Financial Instruments: Disclosures

IAS 19 Employee Benefits

IAS 34 Interim Financial Reporting

2.4 STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

IFRS 9 Financial Instruments

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

IFRS 9 Financial Instruments (continued)

The Group plans to adopt the new standard on the required effective date. The group is in the process of assessing the impact of IFRS 9 on its consolidated financial statements.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a five-step model to account for 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 new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The group is in the process of assessing the impact of IFRS 15 on its consolidated financial statements.

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

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

IAS 7 Disclosure Initiative – Amendments to IAS 7

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

IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12

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

IFRS 16 Leases

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

IFRS 16 Leases (continued)

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

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

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

In 2017, the Group plans to assess the potential effect of IFRS 16 on its consolidated financial statements.

2.5 BASIS OF CONSOLIDATION

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

a. Subsidiaries

Subsidiaries are all entities over which the Group has control. The control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Refer note 19 for the list of major subsidiaries, their principal businesses and the Group's effective holding.

b. Non-controlling interest

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

c. Associates and joint ventures

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

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

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 BASIS OF CONSOLIDATION (continued)

c. Associates and joint ventures (continued)

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

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

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business combinations and goodwill

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

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

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

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

Foreign currency translation

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

Transactions and balances

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency translation (continued)

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

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

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

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

Group companies

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

Any goodwill arising on the acquisition of a foreign subsidiary and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign subsidiary and translated at the spot rate of exchange at the reporting date.

Revenue recognition

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

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

Cash and cash equivalents

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

Leases

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

Group as a lessee

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

Group as a lessor

Leased assets

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

Operating leases

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

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

Trading properties

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

Investment properties

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

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

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

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

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

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

Properties under construction

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

Precious metals inventory

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition and subsequent measurement

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

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

All "regular way" purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

Financing receivables

Receivables are financial assets originated by the Group and principally comprise murabahas, istisna'a, wakala receivables and leased assets. These are stated at amortised cost.

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

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

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

Trade receivable

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

Financial assets available for sale (AFS)

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

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

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

Venture capital at fair value through statement of income

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition and subsequent measurement (continued)

Short-term murabahas

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

Trade payable

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

Accrued expenses

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

Financial guarantees

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

De-recognition of financial assets and financial liabilities

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Offsetting

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

Derivative financial instruments and hedge accounting

Derivatives not designated as hedges:

Currency swaps, profit rate swaps, forward foreign exchange and forward commodity contracts instruments ("the instruments") are initially recognised in the consolidated statement of financial position at cost (including transaction costs) and subsequently measured at their fair value. The fair value of these instruments includes unrealized gain or loss from marking to market the instruments using prevailing market rates or internal pricing models. The instruments with positive market values (unrealised gains) are included in other assets and the instruments with negative market values (unrealised losses) are included in other liabilities in the consolidated statement of financial position. These instruments are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Any gains or losses arising from changes in the fair value of these instruments are taken directly to the consolidated statement of income.

Derivatives designated as hedges:

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

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

Cash flow hedges:

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

Amounts recognised as other comprehensive income are transferred to the consolidated statement of income when the hedged transaction affects profit or loss.

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

Hedges of a net investment:

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

Embedded swaps and profit rate contracts:

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting (continued)

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

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

Impairment of financial assets

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

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

Financial assets carried at amortised cost

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

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

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

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

In addition, in accordance with Central Bank of Kuwait instructions, a minimum general provision on all finance facilities net of certain categories of collateral, to which CBK instructions are applicable and not subject to specific provision, is made.

Financial assets available for sale

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

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

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

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

Property and equipment

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment (continued)

Freehold land is not depreciated. Depreciation is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives, as follows:

▪ Buildings	20 years
▪ Furniture, fixtures and equipment	3-5 years
▪ Motor vehicles	3 years

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

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

Properties under development

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

Leasehold rights

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

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

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

Intangible assets

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

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

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

▪ License of Islamic brokerage company	assessed to have an indefinite useful life
▪ Exploration rights	10 years
▪ Software development cost	3-5 years
▪ Software license right	15 years
▪ Other rights	3-7 years

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (continued)

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

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

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated statement of income when the asset is derecognised. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised.

Impairment of non-financial assets

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

In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or cash-generating unit). In determining fair value less costs to sell an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

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

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

Goodwill is tested for impairment annually as at 31 December and when circumstances indicate that the carrying value may be impaired.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

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

Taxation

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

Non-current assets held for sale and disposal groups

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

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

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, in the most advantageous market to which the Group has access at that date.

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

Financial assets available for sale

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

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

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

Currency swaps, profit rate swaps, forward foreign exchange and forward commodity contracts

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

Other financial assets and liabilities

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

Investment properties

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

Due from/to customers for contract work

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

Finance cost

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

Other provisions and reserves

Other provisions and reserves are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any reserve provision is presented in the consolidated statement of income net of any reimbursement.

Reserves for maintenance

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

Employees' end of service benefits

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

Treasury shares

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fiduciary assets

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

Judgments

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

Operating lease commitments – Group as lessor

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

Classification of real estate

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

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

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

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

Impairment of financial assets available for sale

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

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of goodwill and intangible assets with indefinite useful life

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

Impairment losses on finance facilities

The Group reviews its finance facilities on a quarterly basis to assess whether a provision for impairment should be recorded in the consolidated statement of income. In particular, considerable judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)**2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Estimation uncertainty (continued)***Valuation of unquoted equity investments*

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

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

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

3 INVESTMENT INCOME

	<i>KD 000's</i>	
	<u>2016</u>	<u>2015</u>
Gain on real estate investments	12,209	73,669
Rental income from investment properties	13,338	11,690
Dividend income	5,681	5,632
Gain on sale of investments	6,656	3,561
Share of results of associates and joint ventures (Note 12 and Note 13)	10,934	(975)
Other investment income	30,067	14,682
	<u>78,885</u>	<u>108,259</u>

4 OTHER INCOME

	<i>KD 000's</i>	
	<u>2016</u>	<u>2015</u>
Income from sale of property and equipment	4,274	9,147
Real estate development and construction income	3,240	5,133
Income from maintenance, services and consultancy	13,606	21,460
Rental income from operating lease	7,958	10,741
Other income	9,029	9,212
	<u>38,107</u>	<u>55,693</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

5 PROVISIONS AND IMPAIRMENT

	<i>KD 000's</i>	
	<i>2016</i>	<i>2015</i>
Impairment on financing receivables (Note 10)	111,337	167,880
Recovery of written-off debts	(73,180)	(81,213)
Impairment of financial assets available for sale	26,927	16,320
Impairment of associates and joint ventures	3,157	13,889
Impairment of investment properties (Note 14)	3,425	12,677
Impairment of property and equipment	14,268	14,481
Impairment of intangible assets and goodwill (Note 16)	5,202	12,894
Impairment (reversal of impairment) of non-cash facilities (Note 10)	12,435	(10,593)
Impairment of trading properties	5,955	9,445
Impairment of other assets and other provisions	31,102	27,781
	<u>140,628</u>	<u>183,561</u>

6 TAXATION

	<i>KD 000's</i>	
	<i>2016</i>	<i>2015</i>
Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)	1,731	1,519
National Labour Support Tax (NLST)	3,624	2,688
Zakat (based on Zakat Law No. 46/2006)	1,762	1,296
Taxation related to subsidiaries	16,076	14,930
	<u>23,193</u>	<u>20,433</u>

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

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

Basic and diluted earnings per share:	<i>2016</i>	<i>2015</i>
Profit for the year attributable to shareholders of the Bank (thousand KD)	<u>165,228</u>	<u>145,841</u>
Weighted average number of shares outstanding during the year (thousands share)	<u>5,161,147</u>	<u>5,158,926</u>
Basic and diluted earnings per share attributable to the shareholders of the Bank	<u>32.01 fils</u>	<u>28.27 fils</u>
Basic and diluted earnings per share from continuing operations:		
Profit for the year from continuing operations attributable to shareholders of the Bank (thousand KD)	<u>184,515</u>	<u>136,155</u>
Weighted average number of shares outstanding during the year (thousands share)	<u>5,161,147</u>	<u>5,158,926</u>
Basic and diluted earnings per share from continuing operation attributable to the shareholders of the Bank	<u>35.75 fils</u>	<u>26.39 fils</u>

The Bank has no dilutive potential shares.

The comparative basic and diluted earnings per share have been restated for bonus shares issued (Note 25).

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

8 CASH AND CASH EQUIVALENTS

	<i>KD 000's</i>	
	<i>2016</i>	<i>2015</i>
Cash	251,707	246,715
Balances with Central Banks	715,371	773,592
Balances with banks and financial institutions – current accounts	527,579	579,405
Cash and balances with banks and financial institutions	1,494,657	1,599,712
Short-term murabaha – maturing within 3 months of contract date	1,119,810	1,487,068
Tawarruq balances with Central Bank of Kuwait - maturing within 3 months of contract date	10,002	95,024
Cash with banks attributable to discontinued operation (Note 18)	32,152	-
Less: Statutory deposits with Central Banks	(564,510)	(608,920)
Cash and cash equivalents	2,092,111	2,572,884

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

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

9 SHORT-TERM MURABAHA

	<i>KD 000's</i>	
	<i>2016</i>	<i>2015</i>
Short-term murabaha with banks	1,282,623	1,680,902
Short-term murabaha with Central Banks	1,594,618	1,513,028
	2,877,241	3,193,930

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

10 FINANCING RECEIVABLES

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

	<i>KD 000's</i>	
	<i>2016</i>	<i>2015</i>
Financing receivables		
Murabaha and wakala	8,048,825	7,846,032
Leased assets	1,675,957	1,752,062
Istisna'a and other receivables	104,186	109,280
	9,828,968	9,707,374
Less: deferred and suspended profit	(1,127,413)	(1,139,659)
Net receivables	8,701,555	8,567,715
Less: impairment	(525,766)	(472,223)
	8,175,789	8,095,492

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

10 FINANCING RECEIVABLES (continued)

The distribution of financing receivables is as follows:

Industry sector	KD 000's	
	2016	2015
Trading and manufacturing	4,755,704	4,520,521
Banks and financial institutions	360,118	216,915
Constructions and real estates	2,868,486	2,932,547
Other	1,844,660	2,037,391
	9,828,968	9,707,374
Less: deferred and suspended profit	(1,127,413)	(1,139,659)
Net receivables	8,701,555	8,567,715
Less: impairment	(525,766)	(472,223)
	8,175,789	8,095,492

Geographic region	KD 000's	
	2016	2015
Middle East	6,386,562	5,810,556
Europe	2,915,947	3,109,307
Other	526,459	787,511
	9,828,968	9,707,374
Less: deferred and suspended profit	(1,127,413)	(1,139,659)
Net receivables	8,701,555	8,567,715
Less: impairment	(525,766)	(472,223)
	8,175,789	8,095,492

Impairment of receivables from customers for financing receivables is analysed as follows:

	KD 000's					
	Specific		General		Total	
	2016	2015	2016	2015	2016	2015
Balance at beginning of year	178,247	209,072	293,976	277,587	472,223	486,659
Provided during the year (Note 5)	102,243	141,600	9,094	26,280	111,337	167,880
Amounts written off and foreign currency translation	(52,400)	(172,425)	(5,394)	(9,891)	(57,794)	(182,316)
Balance at end of year	228,090	178,247	297,676	293,976	525,766	472,223
Murabahas and wakalas	218,127	160,973	267,399	263,339	485,526	424,312
Leased assets	7,991	15,621	28,279	28,874	36,270	44,495
Istisna'a and other receivables	1,972	1,653	1,998	1,763	3,970	3,416
	228,090	178,247	297,676	293,976	525,766	472,223

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

10 FINANCING RECEIVABLES (continued)

Non-performing financing facilities

At 31 December 2016, non-performing cash finance facilities before impairment (net of deferred profit and suspended profit) amounted to KD 252,036 thousand (2015: KD 295,484 thousand).

Provision for the year on non-cash facilities is KD 12,435 thousand (2015: reversal of KD 10,593 thousand) (Note 5). The available provision on non-cash facilities of KD 31,588 thousand (2015: KD 19,995 thousand) is included under other liabilities (Note 22).

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

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

	<i>KD 000's</i>	
	<i>2016</i>	<i>2015</i>
Within one year	910,532	1,047,420
One to five years	324,154	320,174
After five years	441,271	384,468
	1,675,957	1,752,062

The unguaranteed residual value of the leased assets at 31 December 2016 is estimated at KD 155,117 thousand (2015: KD 238,501 thousand).

The fair value of collateral held against leased assets at 31 December 2016 is KD 6,622,336 thousand (2015: KD 5,743,941 thousand).

11 INVESTMENTS

	<i>KD 000's</i>	
	<i>2016</i>	<i>2015</i>
Sukook	1,099,603	806,544
Managed portfolios	92,592	103,901
Unquoted equity investments	112,620	126,855
Venture capital at fair value through statement of income	58,230	132,030
Mutual funds	49,453	71,911
Quoted equity investments	43,626	73,515
	1,456,124	1,314,756
Financial assets available for sale at fair value	1,273,447	1,040,754
Financial assets available for sale carried at cost	124,447	141,972
Venture capital at fair value through statement of income	58,230	132,030
	1,456,124	1,314,756

Included in managed portfolios is an amount of KD 54,172 thousand (2015: KD 49,248 thousand) which represents the Bank's investment in 100,319 thousand shares (2015: 91,199 thousand shares) of the Bank on behalf of depositors, equivalent to 1.91% of the total issued share capital at 31 December 2016 (2015: 1.91%). The results from activities relating to dealing in these shares are attributed only to the depositors, and hence these shares are classified under investments.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

12 INVESTMENT IN ASSOCIATES

The major associates of the Group are as follows:

	<i>Interest in equity %</i>		<i>Country of registration</i>	<i>Principal activities</i>	<i>Financial statements reporting date</i>
	<i>2016</i>	<i>2015</i>			
Sharjah Islamic Bank P.J.S.C.	20	20	United Arab Emirates	Islamic banking services	30 September 2016
Ibdar Bank B.S.C.	40	40	Bahrain	Islamic banking service	30 September 2016
Aviation Lease and Finance Company K.S.C.P. (ALAFCO)	46	53	Kuwait	Aircraft leasing and financing services	30 September 2016

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

Summarised consolidated statement of financial position:

	<i>KD 000's</i>	
	<i>2016</i>	<i>2015</i>
Assets	4,255,179	4,065,714
Liabilities	(3,151,381)	(2,869,457)
Equity	1,103,798	1,196,257
Carrying amount of the investment	297,352	355,670

Summarised consolidated statement of income:

Revenues	288,844	166,463
Expenses	(261,558)	(139,689)
Profit for the year	27,286	26,774
Group's share of profit/(loss) for the year	3,610	(2,251)

Investments in associates with a carrying amount of KD 200,007 thousand (2015: KD 193,431 thousand) have a market value of KD 189,924 thousand at 31 December 2016 (2015: KD 160,782 thousand) based on published quotes.

Dividends received from the associates during the current year amounted to KD 3,985 thousand (2015: KD 5,068 thousand).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

13 INVESTMENT IN JOINT VENTURES

The major joint ventures of the Group are as follows:

	<i>Interest in equity %</i>		<i>Country of registration</i>	<i>Principal activities</i>	<i>Financial statements reporting date</i>
	<i>2016</i>	<i>2015</i>			
Diyar Homes Company W.L.L (Souq Al Muharraq)	50	50	Bahrain	Real estate development	30 November 2016
Al Durrat Al Tijaria Company W.L.L	50	50	Bahrain	Real estate development	30 November 2016
Diyar Al Muharraq Company W.L.L.	52	52	Bahrain	Real estate development	30 November 2016

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

Summarised consolidated statement of financial position:

	<i>KD 000's</i>	
	<i>2016</i>	<i>2015</i>
Assets	667,766	615,232
Liabilities	(444,729)	(397,371)
Equity	223,037	217,861
Carrying amount of the investment	172,116	179,186

Summarised consolidated statement of income:

	<i>KD 000's</i>	
	<i>2016</i>	<i>2015</i>
Revenues	99,728	8,039
Expenses	(85,334)	(5,356)
Profit for the year	14,394	2,683
Group's share of profit for the year	7,324	1,276

14 INVESTMENT PROPERTIES

	<i>KD 000's</i>	
	<i>2016</i>	<i>2015</i>
At 1 January	580,499	529,285
Additions	65,221	141,006
Transfer to leasehold rights	-	(23,108)
Transfer to trading properties	(1,962)	(136)
Disposals	(9,062)	(46,101)
Discontinued operations	(33,419)	-
Depreciation charged for the year	(7,051)	(7,770)
Impairment loss charged for the year (Note 5)	(3,425)	(12,677)
At 31 December	590,801	580,499

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

14 INVESTMENT PROPERTIES (continued)

	<i>KD 000's</i>	
	<i>2016</i>	<i>2015</i>
Developed properties	435,591	434,031
Properties under construction	155,210	146,468
	590,801	580,499

15 OTHER ASSETS

	<i>KD 000's</i>	
	<i>2016</i>	<i>2015</i>
Precious metals inventory	70,495	49,882
Trade receivable	179,939	173,945
Clearing accounts	100,902	81,846
Receivables on sale/redemption of investment	47,342	6,210
Deferred tax	23,214	26,968
Advances for investment properties	-	2,446
Other miscellaneous assets	126,760	128,012
	548,652	469,309

16 INTANGIBLE ASSETS AND GOODWILL

	<i>KD 000's</i>	
	<i>2016</i>	<i>2015</i>
Intangible assets	32,453	41,222
Goodwill	6,722	6,738
	39,175	47,960

Movement of intangible assets is as follows:

	<i>KD 000's</i>	
	<i>2016</i>	<i>2015</i>
Cost		
At 1 January	77,752	83,707
Additions	3,958	11,689
Disposal	(4,936)	(4,768)
Impairment	(5,186)	(12,876)
At 31 December	71,588	77,752
Accumulated amortization		
At 1 January	36,530	28,519
Charge for the year	4,231	9,803
Disposals	(1,626)	(1,792)
At 31 December	39,135	36,530
Net book value		
At 31 December	32,453	41,222

16 INTANGIBLE ASSETS AND GOODWILL (continued)

Intangible asset include license of an islamic brokerage company amounting to KD 14,671 thousand (2015: KD 14,671 thousand) and is considered as an intangible asset with an indefinite useful life. The carrying value of the islamic brokerage license is tested for impairment on an annual basis by estimating the recoverable amount of the cash generating unit (CGU). The recoverable amount of the license has been determined using a discount rate of 14.35% and a terminal growth rate of 3%. As a result, the management believes there are no indications of any impairment in value. In addition, the balance includes exploration rights of Nil (2015: KD 6,162 thousand) with a finite useful life. Other intangible assets amounting to KD 17,782 thousand (KD 20,389 thousand) represent software development cost, software license right and other rights with finite useful lives. Intangible assets with finite lives are amortised over their useful economic life.

17 LEASEHOLD RIGHTS

On classification of assets of AIG as discontinued operations (Note 18), leasehold rights have been presented as Assets classified as held for sale in the consolidated statement of financial position.

18 DISCONTINUED OPERATIONS

On 30 June 2016, the Board of Directors of the Bank approved to sell the Group's interest in its subsidiary Aref Investment Group (AIG). As a result, the consolidated statement of financial position at 31 December 2016 presents the assets, 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, financial institutions, and other liabilities.

The Bank has presented AIG assets classified as held for sale amounting to KD 375,322 thousands and liabilities directly associated with the assets classified as held for sale amounting to KD 162,862 in the 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.

During the current year, the Board of Directors of the Bank approved to sell the Group's interest in its subsidiary Public Service Company K.S.C. (Closed) (PSC). As a result, the consolidated statement of financial position at 31 December 2016 presents the assets and liabilities of PSC amounting to KD 7,920 thousand and KD 3,076 thousand respectively as assets classified held for sale, and liabilities directly associated with the assets classified as held for sale, respectively, in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations".

During the current year, the Group established certain subsidiaries for Syndication purpose. Therefore, these subsidiaries were classified as a disposal group held for sale in the consolidated statement of financial position at 31 December 2016. Assets and liabilities of these subsidiaries amounting to KD 103,138 thousand and KD 61,554 thousand respectively are presented 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".

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

19 SUBSIDIARIES

19.1 Details of principal operating material subsidiaries

<i>Name</i>	<i>Country of registration</i>	<i>Interest in equity %</i>		<i>Principal activity</i>	<i>Financial statements reporting date</i>
		<i>2016</i>	<i>2015</i>		
Kuwait Finance House (Malaysia) Berhad	Malaysia	100	100	Islamic banking services	31 December 2016
KFH Private Equity Ltd	Cayman Islands	100	100	Islamic investments	31 December 2016
KFH Financial Service Ltd.	Cayman Islands	100	100	Islamic real estate development and investments	31 December 2016
KFH Capital Investments Company K.S.C. (Closed)*	Kuwait	99.9	99.9	Islamic finance and investments	30 September 2016
KFH Real Estate Company K.S.C. (Closed) *	Kuwait	99.9	99.9	Real estate development and leasing	31 October 2016
Development Enterprises Holding Company K.S.C. (Closed) *	Kuwait	99.9	99.9	Infrastructure and industrial investment	31 December 2016
Baitak Real Estate Investment Company S.S.C.	Saudi Arabia	100	100	Real estate development and investment	30 September 2016

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

19 SUBSIDIARIES (continued)

19.1 Details of principal operating material subsidiaries (continued)

Name	Country of registration	Interest in equity %		Principal activity	Financial statements reporting date
		2016	2015		
KFH Investment Company K.S.C.(Closed)(a)*	Kuwait	-	99.9	Islamic finance and investments	30 September 2016
Saudi Kuwait Finance House S.S.C. (Closed)	Saudi Arabia	100	100	Islamic investment	31 December 2016
Kuwait Finance House B.S.C.	Bahrain	100	100	Islamic banking services	31 December 2016
Gulf International Automobile Trading Company K.S.C. (Closed)*	Kuwait	99.6	99.6	Trading, import and export of used cars	30 September 2016
E'amar	Cayman Islands	100	100	Islamic investments	31 December 2016
International Turnkey Systems Company K.S.C. (Closed)	Kuwait	97	97	Computer maintenance, consultancy and software services	30 September 2016
Muthana GCC Islamic Banks Fund	Kuwait	93	90	Islamic equity investments	30 September 2016
Public Service Company K.S.C. (Closed)	Kuwait	80	80	Management consultancy and services	30 September 2016
Kuwait Turkish Participation Bank	Turkey	62	62	Islamic banking services	31 December 2016
Al Salam Hospital K.S.C. (Closed)(b)	Kuwait	76	55	Healthcare services	30 September 2016
Al Enma'a Real Estate Company K.S.C.P.	Kuwait	56	56	Real estate, investment, trading and real estate management	31 October 2016
Muthana Islamic Index Fund	Kuwait	64	63	Islamic equity investments	30 September 2016
Aref Investment Group K.S.C.(Closed)	Kuwait	53	53	Islamic investments	30 September 2016
Turkapital Holding B.S.C.(C)	Bahrain	51	51	Real estate, auto leasing and insurance	30 September 2016

*Effective ownership percentage is 100% (2015: 100%).

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

(b) During the current year, the Group acquired an additional 21% equity stake in Al Salam Hospital K.S.C (Closed) from an associate.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

19 SUBSIDIARIES (continued)

19.2 *Material partly-owned subsidiary*

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

Proportion of equity interest held by non-controlling interests:

	<i>Country of incorporation & operation</i>	<i>Percentage</i>	
		<i>2016</i>	<i>2015</i>
Kuwait Turkish Participation Bank (KTPB)	Turkey	38%	38%

The summarised financial information of the subsidiary is provided below. This information is based on amounts before inter-company eliminations and adjustments.

Summarised consolidated statement of income for the year ended:

	<i>2016 KD 000's</i>	<i>2015 KD 000's</i>
Revenues	378,575	333,336
Expenses	(320,738)	(274,900)
Profit for the year	57,837	58,436
Attributable to non-controlling interests	21,839	22,065

Summarised consolidated statement of financial position as at:

	<i>2016 KD 000's</i>	<i>2015 KD 000's</i>
Total assets	4,588,468	4,766,514
Total liabilities	(4,009,251)	(4,245,110)
Total equity	579,217	521,404
Attributable to non-controlling interests	239,064	217,249

Summarised consolidated statement of cash flows for year ended:

	<i>2016 KD 000's</i>	<i>2015 KD 000's</i>
Operating	165,809	286,510
Investing	(139,326)	(5,581)
Financing	77,915	(127,055)
Net increase in cash and cash equivalents	104,398	153,874

20 DUE TO BANKS AND FINANCIAL INSTITUTIONS

	<i>KD 000's</i>	
	<u>2016</u>	<u>2015</u>
Current accounts	5,664	5,387
Murabaha payable	2,392,926	2,725,094
Sukook payable	473,061	322,466
	<u>2,871,651</u>	<u>3,052,947</u>

The fair values of balances due to banks and financial institutions do not materially differ from their respective carrying values.

21 DEPOSITORS' ACCOUNTS

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

- 1) Non-investment deposits in the form of current accounts: These deposits are not entitled to any profits nor do they bear any risk of loss as the Bank guarantees to pay the related balances on demand. Accordingly, these deposits are considered Qard Hasan from depositors to the Bank under Islamic Shareea'a.
- 2) Investment deposits: These have fixed maturity as specified in the term of the contract and are automatically renewable for the same periods unless notified to the contrary in writing by the depositor. Investment savings accounts are valid for an unlimited period.

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

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

22 OTHER LIABILITIES

	<i>KD 000's</i>	
	<u>2016</u>	<u>2015</u>
Trade payables	198,702	210,799
Accrued expenses	104,621	97,574
Certified cheques	56,763	74,309
Due to customers for contract work	25,012	37,889
Maintenance and other reserve	80,839	42,790
Employees' end of service benefits	68,922	68,825
Letter of guarantee covered	54,594	46,423
Refundable deposits	7,149	979
Provision on non cash facilities (Note 10)	31,588	19,995
Other miscellaneous liabilities	71,055	77,279
	<u>699,245</u>	<u>676,862</u>

Kuwait Finance House K.S.C.P. and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2016

23 RESERVES

	<i>Statutory reserve</i>	<i>Voluntary reserve</i>	<i>Retained earnings</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 year	-	-	165,228	-	-	-	-	165,228
Other comprehensive income (loss)	-	-	-	-	7,999	(44,416)	-	(36,417)
Total comprehensive income (loss)	-	-	165,228	-	7,999	(44,416)	-	128,811
Zakat paid	-	-	(7,914)	-	-	-	-	(7,914)
Transfer to reserves	17,312	17,312	(34,624)	-	-	-	-	-
Proposed issue of bonus shares (Note 25)	-	-	(52,415)	-	-	-	-	(52,415)
Proposed cash dividends (Note 25)	-	-	(87,755)	-	-	-	-	(87,755)
Acquisition of non-controlling interests (Note 19.1)	-	-	-	-	-	-	(10,793)	(10,793)
Loss on sale of treasury shares	-	-	-	(349)	-	-	-	(349)
Balance at 31 December 2016	255,564	255,564	107,099	6,735	25,728	(141,649)	(34,389)	474,652

Kuwait Finance House K.S.C.P. and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 At 31 December 2016

23 RESERVES (continued)

	<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 year	-	-	145,841	-	-	-	-	-	145,841
Other comprehensive income (loss)	-	-	-	-	-	13,236	(35,894)	-	(22,658)
Total comprehensive income (loss)	-	-	145,841	-	-	13,236	(35,894)	-	123,183
Zakat paid	-	-	(6,327)	-	-	-	-	-	(6,327)
Transfer to retained earnings	-	-	4,246	(4,246)	-	-	-	-	-
Deconsolidation of a subsidiary	-	-	-	-	-	-	(7,029)	-	(7,029)
Proposed issue of bonus shares (Note 25)	-	-	(47,650)	-	-	-	-	-	(47,650)
Proposed cash dividends (Note 25)	-	-	(79,755)	-	-	-	-	-	(79,755)
Acquisition of non-controlling interests	-	-	-	-	-	-	-	(14,676)	(14,676)
Profit on sale of treasury shares	-	-	-	-	6	-	-	-	6
Balance at 31 December 2015	238,252	238,252	124,579	-	7,084	17,729	(97,233)	(23,596)	505,067

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

23 RESERVES (continued)

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

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

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

Voluntary reserve is available to be distributed to shareholders at the discretion of the general assembly in ways that may be deemed beneficial to the Bank, except for the amount of KD 48,824 thousand (2015: KD 50,173 thousand) which is equivalent to the cost of purchasing treasury shares, and is not available for distribution throughout the holding period of the treasury shares (Note 24).

The share premium balance is not available for distribution.

Fair value reserve, foreign currency translation reserve and other reserve are attributable to both shareholders and deposit account holders.

24 SHARE CAPITAL AND TREASURY SHARES

The ordinary general assembly of the shareholders of the Bank held on 21 March 2016 approved 10% bonus shares on outstanding shares amounting to KD 47,650 thousand for the year ended 31 December 2015 (Note 25).

Share capital

	<i>KD 000's</i>	
	<i>2016</i>	<i>2015</i>
Authorized, issued and fully paid in cash:		
5,241,539,597 (2015: 4,765,035,998) shares of 100 fils each	524,154	476,504

The movement in ordinary shares in issue during the year was as follows:

	<i>2016</i>	<i>2015</i>
Number of shares in issue 1 January	4,765,035,998	4,331,850,908
Bonus issue	476,503,599	433,185,090
Number of shares in issue 31 December	5,241,539,597	4,765,035,998

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

24 SHARE CAPITAL AND TREASURY SHARES (continued)

Treasury shares and treasury share reserve.

The Group held the following treasury shares at the year-end:

	2016	2015
Number of treasury shares	79,473,239	73,537,453
Treasury shares as a percentage of total shares in issue	1.52%	1.54%
Cost of treasury shares (KD)	48,823,661	50,173,113
Market value of treasury shares (KD)	42,915,549	39,710,225

The balance in the treasury share reserve account is not available for distribution.

An amount of KD 48,824 thousand (31 December 2015: KD 50,173 thousand) equivalent to the cost of purchase of the treasury shares have been earmarked as non-distributable from voluntary reserve throughout the holding period of treasury shares.

The weighted average market price of the Bank's shares for the year ended 31 December 2016 was 487 (2015: 651) fils per share.

25 PROPOSED CASH DIVIDENDS, BONUS SHARES, AND DIRECTORS' FEES

The Board of Directors of the Bank has proposed a cash dividend of 17% for the year ended 31 December 2016 (2015: 17%) and issuance of bonus shares of 10 % (2015: 10%) of paid up share capital as follows:

	2016		2015	
		<i>Total</i>		<i>Total</i>
Proposed cash dividends (per share)	17 fils	87,755	17 fils	79,755
Proposed issuance of bonus shares (per 100 shares)	10 shares	52,415	10 shares	47,650

This proposal is subject to the approval of the ordinary general assembly of the shareholders of the Bank and completion of legal formalities. Proposed dividends are shown separately within equity.

The Board of Directors of the Bank has proposed Directors' fees of KD 772 thousand (2015: KD 610 thousand), (Note 28) are within the amount permissible under local regulations and are subject to approval by the annual general assembly of the shareholders of the Bank.

26 CONTINGENCIES AND CAPITAL COMMITMENTS

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

	<i>KD 000's</i>	
	2016	2015
Acceptances and letters of credit	146,155	143,603
Letter of Guarantees	1,675,716	1,513,029
Contingent liabilities	1,821,871	1,656,632
	<i>KD 000's</i>	
	2016	2015
Capital commitments	399,058	349,775

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

27 CURRENCY SWAPS, PROFIT RATE SWAPS, FORWARD FOREIGN EXCHANGE AND FORWARD COMMODITY CONTRACTS (“ISLAMIC DERIVATIVE FINANCIAL INSTRUMENTS”)

In the ordinary course of business the Group enters into currency swaps, profit rate swaps, forward foreign exchange and forward commodity contracts (“Islamic derivative financial instruments”) to mitigate foreign currency and profit rate risk. Currency swaps and forward commodity contracts are based on Wa'ad (promise) structure between two parties to buy a specified Shareea'a compliant commodity at an agreed price on the relevant date in future. It is a conditional promise to purchase a commodity through unilateral purchase undertaking. Currency swap structure comprises profit rate swap and currency swap. For profit rate swaps, counterparties generally exchange fixed and floating rate profit payments based on a notional value in a single currency. For currency swaps, fixed or floating payments as well as notional amounts are exchanged in different currencies.

The currency swaps, profit rate swaps, forward foreign exchange and forward commodity contracts are being used to hedge the foreign currency risk of the firm commitments.

Embedded swaps and profit rate contracts are balances with banks and financial institutions with rates of return tied to changes in value of precious metals.

The table below shows the positive and negative fair values of these instruments, which are equivalent to the market values, together with the notional amounts. The notional amount is the amount of currency swap instruments' underlying asset, reference rate or index and is the basis upon which changes in the value of these instruments are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

	<i>KD 000's</i>		
	<i>Positive fair value</i>	<i>Negative fair value</i>	<i>Notional amount</i>
31 December 2016			
Forward contracts	2,017	1,540	155,878
Profit rate swaps	330	-	13,591
Currency swaps	7,665	21,037	719,847
Embedded precious metals	-	62	90,872
	10,012	22,639	980,188
31 December 2015			
Forward contracts	1,681	1,460	172,626
Profit rate swaps	625	11	17,337
Currency swaps	3,021	16,423	541,893
Embedded precious metals	2	2	79,711
	5,329	17,896	811,567

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

27 CURRENCY SWAPS, PROFIT RATE SWAPS, FORWARD FOREIGN EXCHANGE AND FORWARD COMMODITY CONTRACTS (“ISLAMIC DERIVATIVE FINANCIAL INSTRUMENTS”) (continued)

In respect of currency swaps, profit rate swaps, forward foreign exchange and forward commodity contracts the notional amount represents the gross cash flows. However, the amounts may be settled net. The following table shows the net cash flows:

	<i>KD 000's</i>			
	<i>Notional amount</i>	<i>Within 3 months</i>	<i>3 to 12 months</i>	<i>More than 12 months</i>
31 December 2016				
Cash inflows	980,188	693,216	218,014	68,958
Cash outflows	(745,823)	(512,285)	(133,450)	(100,088)
Net cash flows	234,365	180,931	84,564	(31,130)
31 December 2015				
Cash inflows	811,567	506,185	212,983	92,399
Cash outflows	(744,380)	(507,236)	(133,310)	(103,834)
Net cash flows	67,187	(1,051)	79,673	(11,435)

28 RELATED PARTY TRANSACTIONS

Certain related parties (directors and executive employees, officers of the Group, their families, associated companies and companies of which they are the principal owners) were depositors and financing 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.

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

					<i>KD 000's</i>	
	<i>Major shareholders</i>	<i>Associates & joint ventures</i>	<i>Board Members and executive Officers</i>	<i>Other related party</i>	<i>2016</i>	<i>2015</i>
Financing income	-	3,381	257	579	4,217	5,382
Fee and commission income	-	78	6	178	262	320
Finance costs	20,742	1,005	-	4,199	25,946	20,237

Balances with related parties included in the consolidated statement of financial position are as follows:

					<i>KD 000's</i>	
	<i>Major shareholders</i>	<i>Associates & joint ventures</i>	<i>Board Members and executive Officers</i>	<i>Other related party</i>	<i>2016</i>	<i>2015</i>
Financing receivables	-	110,356	7,329	16,728	134,413	142,786
Due to banks and financial institutions	1,324,112	10,798	-	264	1,335,174	1,305,034
Depositors' accounts	-	75,652	6,146	16,637	98,435	129,467
Contingencies and capital commitments	436	8,891	2	5,472	14,801	47,563
Investment managed by related party	-	-	-	34,108	34,108	33,824

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

28 RELATED PARTY TRANSACTIONS (continued)

Details of the interests of Board Members and Executive Officers are as follows:

	<i>The number of Board Members or Executive Officers</i>		<i>The number of related parties</i>		<i>KD 000's</i>	
	<i>2016</i>	<i>2015</i>	<i>2016</i>	<i>2015</i>	<i>2016</i>	<i>2015</i>
	Board Members					
Finance facilities	40	36	20	18	16,033	39,581
Credit cards	15	20	8	7	40	47
Deposits	78	87	145	100	10,021	13,349
Collateral against financing facilities	9	11	3	1	15,190	9,104
Executive officers						
Finance facilities	45	30	11	7	3,360	2,702
Credit cards	39	23	7	3	166	116
Deposits	83	58	79	41	9,171	1,690
Collateral against financing facilities	14	14	5	4	7,549	4,885

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

	<i>KD 000's</i>	
	<i>Total</i>	
	<i>2016</i>	<i>2015</i>
Board Members		
Finance income	132	284
Executive officers		
Finance income	125	97
	257	381

Salaries, allowances and bonuses of key management personnel and remuneration of chairman and board members are as follows:

	<i>KD 000's</i>	
	<i>Total</i>	
	<i>2016</i>	<i>2015</i>
Salaries, allowances and bonuses of key management personnel	16,273	17,201
Termination benefits of key management personnel	953	987
Remuneration of chairman and board members*	1,536	1,821
	18,762	20,009

* Remuneration of chairman and board members includes special compensation for additional contributions related to participation in the executive committees in accordance with board of directors' decisions.

The remuneration of chairman and board members are subject to the approval of the Annual General Assembly.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

29 SEGMENTAL ANALYSIS

Primary segment information

For management purposes, the Group is organized into three major business segments. The principal activities and services under these segments are as follows:

Treasury:	Liquidity management, murabaha investments, exchange of deposits with banks and financial institutions and international banking relationships.
Investment:	Managing direct equity and real estate investments, investments in subsidiaries and associates, and international leasing.
Banking:	Providing a range of banking services and investment products to corporate and individual customers, providing commodity and real estate murabaha finance, local leasing, wakala and istisna'a facilities.

	<i>KD 000's</i>				
	<i>Treasury</i>	<i>Investment</i>	<i>Banking</i>	<i>Other</i>	<i>Total</i>
31 December 2016					
Total assets	<u>5,410,812</u>	<u>1,803,976</u>	<u>8,358,439</u>	<u>926,126</u>	<u>16,499,353</u>
Total liabilities	<u>3,051,720</u>	<u>99,294</u>	<u>10,662,268</u>	<u>647,246</u>	<u>14,460,528</u>
Operating income	<u>23,070</u>	<u>80,067</u>	<u>523,662</u>	<u>32,851</u>	<u>659,650</u>
Provisions and impairment	<u>(835)</u>	<u>(39,464)</u>	<u>(49,756)</u>	<u>(50,573)</u>	<u>(140,628)</u>
Profit (loss) for the year	<u>17,411</u>	<u>17,480</u>	<u>324,279</u>	<u>(197,231)</u>	<u>161,939</u>
31 December 2015					
Total assets	<u>5,524,693</u>	<u>2,067,541</u>	<u>8,116,867</u>	<u>785,583</u>	<u>16,494,684</u>
Total liabilities	<u>3,031,637</u>	<u>179,566</u>	<u>10,833,997</u>	<u>393,995</u>	<u>14,439,195</u>
Operating income	<u>11,695</u>	<u>119,208</u>	<u>464,827</u>	<u>107,213</u>	<u>702,943</u>
Provisions and impairment	<u>(466)</u>	<u>(56,598)</u>	<u>(75,609)</u>	<u>(50,888)</u>	<u>(183,561)</u>
Profit (loss) for the year	<u>6,901</u>	<u>29,549</u>	<u>274,484</u>	<u>(121,164)</u>	<u>189,770</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

29 SEGMENTAL ANALYSIS (continued)

Secondary segment information

The Group operates in different geographical areas. A geographical analysis is as follows:

	<i>KD 000's</i>			
	<i>Assets</i>		<i>Contingencies and capital commitments</i>	
	<i>2016</i>	<i>2015</i>	<i>2016</i>	<i>2015</i>
Geographical areas:				
Middle East	11,101,762	10,761,616	1,079,416	794,834
Europe	4,220,156	4,241,242	1,103,123	1,161,744
Other	1,177,435	1,491,826	38,390	49,829
	16,499,353	16,494,684	2,220,929	2,006,407

	<i>KD 000's</i>					
	<i>Local</i>		<i>International</i>		<i>Total</i>	
	<i>2016</i>	<i>2015</i>	<i>2016</i>	<i>2015</i>	<i>2016</i>	<i>2015</i>
Operating income	270,563	274,837	389,087	428,106	659,650	702,943
Profit for the year	63,497	90,849	98,442	98,921	161,939	189,770

30 RISK MANAGEMENT

Risk management is an integral part of the decision-making processes in the group. It is implemented under the governance process that confirms the existence of an independent risk assessment and control, control and surveillance carried directly by the Board of Directors and senior management. The Group works continuously on upgrading the capabilities of risk management in the light of business sector developments, also in the light of banking system instructions developments, stock exchange regulations and the best practices applied in risk management including the "three lines of defense".

First line of defense is the business units, which manages the relationship with the client. Its responsibility lies in understanding the customer's requirements to reduce the risk of mitigating customer defaults or risk of early withdrawal of deposits. Business units are also responsible to maintain the processes through which the Group serves the customer in order to mitigate any operational risk and reputation risk.

The functions of risk management and financial control represent the second line of defense. It is responsible for the development of frameworks for risk management and financial control. It is responsible for conducting and directing an independent assessment of risk management and control activities.

The third line of defense contains the functions of affirmation and security, which is a policy to comply with laws and regulations and anti-money laundering as well as the internal audit process. This line is responsible for ensuring compliance with regulatory as well as internal policies and to identify weaknesses so that corrective actions can be taken by management.

The Group is exposed to liquidity risk, credit risk, concentration risk, profit return risk, equity price risk and currency risk.

30 RISK MANAGEMENT (continued)

a) Risk management structure

The Group has an independent process whereby risks are identified, measured and monitored. The risk management unit is responsible for this process. The head of risk management has independent access to the Bank's Board of Directors.

Board of Directors

The Board of Directors of the Bank is responsible for the overall risk management approach and for approving risk strategies and principles. The Board of Directors receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Group.

Risk management committee

The Bank's risk management committee has the overall responsibility for development of a risk strategy and implementing principles, frameworks, policies and limits. It is responsible for fundamental risk issues and manages and monitors relevant risk exposures.

Risk management unit

The Bank's risk management unit is responsible for implementing and maintaining risk related procedures to ensure an independent control process and includes monitoring the risk of exposures against limits.

Credit Committee

The Bank's Credit Committee conducts a review and take action on the determination of the Bank's credit risk while ensuring compatibility with the approved risk tendency. The committee also included in general compliance with all credit risk policies adopted with obtaining the necessary approvals and exceptions.

Assets and Liabilities Committee

The Bank's Assets and Liabilities Committee is responsible of the effective supervision of liquidity risk management and finance, adoption of frameworks, and follow-up implementation in its regular meetings.

Treasury

Treasury is responsible for managing the Bank's assets and liabilities, and the overall financial position. It is also responsible for funding and liquidity management.

b) Risk management and reporting systems

The risk management committee is responsible for managing and monitoring risk exposures. The risk management unit measures risk through the use of risk models and provides reports to the risk management committee. The models use probabilities based on historical experiences adjusted to reflect the economic environment.

Monitoring and controlling risks are managed through limits set by the Board of Directors. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Bank's Board of Directors is willing to accept.

Risk mitigation

As part of its overall risk management, the Group uses currency swaps, profit rate swaps, forward foreign exchange and forward commodity contracts to manage exposures resulting from changes in yields, foreign currencies, equity risks and credit risks. The Group actively uses collateral to reduce its credit risks.

Excessive risk concentration

In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. Selective hedging is used within the Bank to manage risk concentrations at both the relationship and industry levels.

In addition, each of the banking subsidiaries of the Bank has similar risk management structures, policies and procedures as overseen by the Bank's Board of Directors.

At 31 December 2016

31 CREDIT RISK

Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Group has established a decentralized credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Credit-related commitments risks

The Group makes available to its customers guarantees which may require that the Group makes payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit. They expose the Group to similar risks to finance facilities and these are mitigated by the same control processes and policies.

Maximum exposure to credit risk without taking account of any collateral

The table below shows the maximum exposure to credit risk for the components of the consolidated statement of financial position. The maximum exposure is shown gross (net of impairment), before the effect of mitigation through the use of master netting and collateral agreements.

	<i>Notes</i>	<i>2016</i>	<i>KD 000' s</i> <i>2015</i>
Balances with banks and financial institutions		1,242,950	1,352,997
Short-term murabaha	9	2,877,241	3,193,930
Financing receivables	10	8,175,789	8,095,492
Financial assets available for sale – Sukook	11	1,099,603	806,544
Trade and other receivables		354,041	308,167
Total		13,749,624	13,757,130
Contingent liabilities	26	1,821,871	1,656,632
Commitments	26	399,058	349,775
Total		2,220,929	2,006,407
Total credit risk exposure		15,970,553	15,763,537

Where financial instruments are recorded at fair value, the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

Risk concentrations of the maximum exposure to credit risk

Concentration of risk is managed by counterparty by geographical region and by industry sector. The maximum credit exposure to a single counterparty as of 31 December 2016 was KD 184,555 thousand (2015: KD 126,840 thousand) before taking account of any collaterals.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

31 CREDIT RISK (continued)

Risk concentrations of the maximum exposure to credit risk (continued)

The Group's financial assets, before taking into account any collateral held can be analysed by the following geographical regions:

	<i>KD 000's</i>	
	<i>2016</i>	<i>2015</i>
Middle East	8,599,763	8,787,095
Europe	4,045,521	3,869,900
Other	1,104,340	1,100,135
	<u>13,749,624</u>	<u>13,757,130</u>

An industry sector analysis of the Group's financial assets, before taking into account collateral held is as follows:

	<i>KD 000's</i>	
	<i>2016</i>	<i>2015</i>
Trading and manufacturing	3,882,095	3,666,703
Banks and financial institutions	5,146,473	5,215,333
Construction and real estate	2,580,134	2,573,518
Other	2,140,922	2,301,576
	<u>13,749,624</u>	<u>13,757,130</u>

Credit quality per class of financial assets

The table below shows the credit quality by class of asset for consolidated statement of financial position lines:

	<i>KD 000's</i>			
	<i>Neither past due nor impaired</i>		<i>Past due or impaired</i>	<i>Total</i>
	<i>High grade</i>	<i>Standard grade</i>		
31 December 2016				
Balances with banks and financial institutions	1,242,950	-	-	1,242,950
Short-term murabaha (Note 9)	2,877,241	-	-	2,877,241
Financing receivables (Note 10)	5,619,614	1,957,010	599,165	8,175,789
Financial assets available for sale – sukook (Note11)	1,025,359	73,588	656	1,099,603
Trade and other receivables	354,041	-	-	354,041
	<u>11,119,205</u>	<u>2,030,598</u>	<u>599,821</u>	<u>13,749,624</u>

	<i>KD 000's</i>			
	<i>Neither past due nor impaired</i>		<i>Past due or impaired</i>	<i>Total</i>
	<i>High grade</i>	<i>Standard grade</i>		
31 December 2015				
Balances with banks and financial institutions	1,352,997	-	-	1,352,997
Short-term murabaha (Note 9)	3,193,930	-	-	3,193,930
Financing receivables (Note 10)	4,832,336	2,601,104	662,052	8,095,492
Financial assets available for sale – sukook (Note11)	733,002	72,862	680	806,544
Trade and other receivables	308,167	-	-	308,167
	<u>10,420,432</u>	<u>2,673,966</u>	<u>662,732</u>	<u>13,757,130</u>

31 CREDIT RISK (continued)**Aging analysis of past due but not impaired finance facilities by class of financial assets:**

	<i>KD 000's</i>			
	<i>Less than 30 days</i>	<i>31 to 60 days</i>	<i>61 to 90 days</i>	<i>Total</i>
31 December 2016				
Financing receivables	<u>288,555</u>	<u>113,089</u>	<u>64,444</u>	<u>466,088</u>
31 December 2015				
Financing receivables	<u>248,082</u>	<u>78,680</u>	<u>125,212</u>	<u>451,974</u>

Rescheduled facilities (before impairment, net of deferred and suspended profit) amounted to KD 213,280 thousand (2015: KD 241,944 thousand). These represent financing receivable which are not impaired, however as required by regulations, group has recorded specific provision against these facilities.

It is the Group's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Bank's rating policy. The attributable risk ratings are assessed and updated regularly.

Collateral

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines established by the Bank's risk management and credit committee are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral accepted include real estate, securities, cash and bank guarantees. The Group also obtains guarantees from parent companies for finance facilities extended to their subsidiaries.

Management monitors the fair value of collateral and requests additional collateral in accordance with the underlying agreements when necessary.

The fair value of collateral that the Group holds relating to finance facilities individually determined to be impaired at 31 December 2016 amounts to KD 102,819 thousand (2015: KD 165,535 thousand).

The fair value of collateral that the Group holds relating to finance facilities past due but not impaired as at 31 December 2016 was KD 182,045 thousand (2015: KD 181,694 thousand). The collateral consists of cash, securities, sukook, letters of guarantee and real estate assets.

At 31 December 2016

32 LIQUIDITY RISK

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank also has committed lines of credit that it can access to meet liquidity needs.

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank.

The table below summarizes the maturity profile of the Group's assets and liabilities. The maturity profile is monitored by management to ensure adequate liquidity is maintained. The maturity profile of the assets and liabilities at the year end are based on contractual repayment arrangement and planned exit dates.

The maturity profile of assets and undiscounted liabilities at 31 December 2016 is as follows:

	<i>KD 000's</i>				
	<i>Within 3 months</i>	<i>3 to 6 months</i>	<i>6 to 12 months</i>	<i>After one year</i>	<i>Total</i>
Assets					
Cash and balances with banks and financial institutions	1,459,959	1,917	2,855	29,926	1,494,657
Short-term murabaha	1,930,069	606,485	340,687	-	2,877,241
Financing receivables	1,875,653	849,570	1,340,186	4,110,380	8,175,789
Trading properties	28,836	2,430	15,227	139,848	186,341
Investments	453,854	45,999	10,341	945,930	1,456,124
Investments in associates and joint ventures	-	-	-	469,468	469,468
Investment properties	-	-	-	590,801	590,801
Other assets	225,167	7,915	61,589	253,981	548,652
Intangible assets and goodwill	-	-	-	39,175	39,175
Property and equipment	-	-	-	216,212	216,212
Assets classified as held for sale	7,918	436,975	-	-	444,893
	<u>5,981,456</u>	<u>1,951,291</u>	<u>1,770,885</u>	<u>6,795,721</u>	<u>16,499,353</u>
Liabilities					
Due to banks and financial institutions	1,719,357	268,097	302,515	581,682	2,871,651
Depositors' accounts	7,016,506	180,421	301,588	3,163,625	10,662,140
Other liabilities	129,066	14,075	90,150	465,954	699,245
Liabilities directly associated with assets classified as held for sale	3,076	224,416	-	-	227,492
	<u>8,868,005</u>	<u>687,009</u>	<u>694,253</u>	<u>4,211,261</u>	<u>14,460,528</u>

At 31 December 2016

32 LIQUIDITY RISK (continued)

The maturity profile of assets and undiscounted liabilities at 31 December 2015 is as follows:

	<i>KD 000's</i>				
	<i>Within 3 months</i>	<i>3 to 6 months</i>	<i>6 to 12 months</i>	<i>After one year</i>	<i>Total</i>
Assets					
Cash and balances with banks and financial institutions	1,567,356	376	526	31,454	1,599,712
Short-term murabaha	2,612,037	406,894	174,999	-	3,193,930
Financing receivables	1,809,757	945,948	1,284,410	4,055,377	8,095,492
Trading properties	6,204	126,425	37,957	43,776	214,362
Investments	395,318	8,957	29,279	881,202	1,314,756
Investments in associates and joint ventures	-	31,928	-	502,928	534,856
Investment properties	-	27,581	-	552,918	580,499
Other assets	76,356	36,821	23,894	332,238	469,309
Intangible assets and goodwill	-	-	-	47,960	47,960
Property and equipment	-	-	-	264,181	264,181
Leasehold rights	-	-	-	179,627	179,627
	<u>6,467,028</u>	<u>1,584,930</u>	<u>1,551,065</u>	<u>6,891,661</u>	<u>16,494,684</u>
Liabilities					
Due to banks and financial institutions	1,754,229	438,010	469,531	391,177	3,052,947
Depositors' accounts	6,943,463	144,702	315,490	3,305,731	10,709,386
Other liabilities	88,603	45,068	93,211	449,980	676,862
	<u>8,786,295</u>	<u>627,780</u>	<u>878,232</u>	<u>4,146,888</u>	<u>14,439,195</u>

The table below shows the contractual expiry by maturity of the Bank's contingent liabilities and commitments:

	<i>KD 000's</i>					
	<i>On demand</i>	<i>Less than 3 months</i>	<i>3 to 12 months</i>	<i>1 to 5 years</i>	<i>Over 5 years</i>	<i>Total</i>
2016						
Contingent liabilities (Note 26)	922,987	502,377	229,623	156,932	9,952	1,821,871
Capital commitments (Note 26)	380,522	1,553	5,903	11,080	-	399,058
Total	<u>1,303,509</u>	<u>503,930</u>	<u>235,526</u>	<u>168,012</u>	<u>9,952</u>	<u>2,220,929</u>

At 31 December 2016

32 LIQUIDITY RISK (continued)

	<i>KD 000's</i>					
	<i>On demand</i>	<i>Less than 3 Months</i>	<i>3 to 12 Months</i>	<i>1 to 5 years</i>	<i>Over 5 years</i>	<i>Total</i>
2015						
Contingent liabilities (Note 26)	724,894	547,991	187,638	182,969	13,140	1,656,632
Capital commitments (Note 26)	329,218	3,733	10,130	6,694	-	349,775
Total	1,054,112	551,724	197,768	189,663	13,140	2,006,407

The Bank expects that not all of the contingent liabilities or capital commitments will be drawn before expiry of the commitments.

33 MARKET RISK

Market risk is the risk that the value of an asset will fluctuate as a result of changes in market prices. Market risk is managed on the basis of pre-determined asset allocations across various asset categories, a continuous appraisal of market conditions and trends and management's estimate of long and short term changes in fair value.

The Group is not exposed to any risk in terms of the repricing of its liabilities since the Group does not provide contractual rates of return to its depositors and other financing arrangements are at fixed profit rate in accordance with Islamic Shareea'a.

Non-trading market risk**Interest rate risk**

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Group is not exposed to interest rate risk as the Bank does not charge or pay interest. Changes in interest rates may, however, affect the fair value of financial assets available for sale.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

Currency risk is managed on the basis of limits determined by the Bank's Board of Directors and a continuous assessment of the Group open positions, and current and expected exchange rate movements. The Group, wherever necessary, matches currency exposures inherent in certain assets with liabilities in the same or a correlated currency. The Group also uses currency swap and forward foreign exchange contracts to mitigate foreign currency risk.

The tables below indicate the currencies to which the Bank had significant exposure at 31 December 2016 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Kuwaiti Dinar, with all other variables held constant on the profit and the fair value reserve (due to the change in fair value of financial assets available for sale).

	<i>2016</i>			<i>2015</i>		
<i>Currency</i>	<i>Change in currency rate %</i>	<i>Effect on profit</i>	<i>Effect on fair value reserve</i>	<i>Change in currency rate %</i>	<i>Effect on profit</i>	<i>Effect on fair value reserve</i>
U.S. Dollars	+1	(95,385)	6,981	+1	(16,816)	5,098
Bahraini Dinar	+1	265,410	592	+1	355,508	317

33 MARKET RISK (continued)**Non-trading market risk (continued)****Equity price risk**

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The non-trading equity price risk exposure arises from the Group's investment portfolio. The Group manages this risk through diversification of investments in terms of geographical distribution and industry concentration.

The effect on fair value reserve (as a result of a change in the fair value of financial assets available for sale at 31 December) due to a reasonably possible change in equity indices, with all other variables held constant is as follows:

	2016		2015	
	Change in equity price %	Effect on fair value reserve	Change in equity price %	Effect on fair value reserve
Market indices				
Kuwait Stock Exchange	+1	874	+1	823
Other GCC indices	+1	71	+1	436

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage the risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

The Bank has a set of policies and procedures, which is approved by its Board of Directors and applied to identify, assess and supervise operational risk in addition to other types of risks relating to the banking and financial activities of the Bank. Operational risk is managed by the operational risk function, which ensures compliance with policies and procedures and monitors operational risk as part of overall Bank-wide risk management.

The operational risk function of the Bank is in line with the CBK instructions concerning the general guidelines for internal controls and the sound practices for managing and supervising operational risks in Banks.

Country risk

Country risk is the risk that an occurrence within a country could have an adverse effect on the Bank directly by impairing the value of the Group or indirectly through an obligor's ability to meet its obligations to the Bank. Generally, these occurrences relate, but are not limited to: sovereign events such as defaults or restructuring; political events such as contested elections; restrictions on currency movements; non-market currency convertibility; regional conflicts; economic contagion from other events such as sovereign default issues or regional turmoil; banking and currency crisis; and natural disasters.

34 CAPITAL MANAGEMENT

The primary objectives of the Group's capital management are to ensure that the Group complies with regulatory capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

The Group actively manages its capital base in order to cover risks inherent in the business. The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision (BIS rules/ratios) and adopted by the Central Bank of Kuwait in supervising the Group.

At 31 December 2016

34 CAPITAL MANAGEMENT (continued)

The Group's regulatory capital and capital adequacy ratios are calculated in accordance with CBK circular number 2/RB, RBA/336/2014 dated 24 June 2014 (Basel III) are shown below:

Capital adequacy	<i>KD 000's</i>	
	<i>2016</i>	<i>2015</i>
Risk Weighted Assets	11,408,921	11,765,998
Capital required	1,711,338	1,529,580
Capital available		
Tier 1 capital	1,853,574	1,809,616
Tier 2 capital	186,792	151,343
Total capital	2,040,366	1,960,959
Tier 1 capital adequacy ratio	16.25%	15.38%
Total capital adequacy ratio	17.88%	16.67%

The Group's financial leverage ratio for the year ended 31 December 2016 is calculated in accordance with CBK circular number 2/RBA/343/2014 dated 21 October 2014 is shown below:

	<i>KD 000's</i>	
	<i>2016</i>	<i>2015</i>
Tier 1 capital	1,853,574	1,809,616
Total exposure	18,554,168	18,280,293
Financial leverage ratio	9.99%	9.90%

35 MANAGEMENT OF PURCHASED DEBTS

In accordance with Decree 32/92 and Law 41/93 in respect of the financial and banking sector, the Bank is required to manage the purchased debts without remuneration in conformity with the terms of the debt purchase agreement.

36 FIDUCIARY ASSETS

The aggregate value of assets held in a trust or fiduciary capacity by the Group at 31 December 2016 amounted to KD 1,103,087 thousand (2015: KD 1,184,836 thousand).

Fees and commission income include fees of KD 2,504 thousand (2015: KD 2,815 thousand) arising from trust and fiduciary activities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

37 FAIR VALUES

The Group uses the following hierarchy for determining and disclosing the fair value by valuation technique:

Level 1: quoted (unadjusted) prices in active markets.

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: other techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities as at 31 December 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 (Note 11)	-	58,230	-	58,230
Financial assets available for sale (Note 11)	867,724	48,216	357,507	1,273,447
<i>Derivative financial assets:</i>				
Forward contracts	-	2,017	-	2,017
Profit rate swaps	-	330	-	330
Currency swaps	-	7,665	-	7,665
Embedded precious metals	-	-	-	-
Non-financial assets:				
Investment properties	-	723,028	-	723,028
	<u>867,724</u>	<u>839,486</u>	<u>357,507</u>	<u>2,064,717</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	-	1,540	-	1,540
Profit rate swaps	-	-	-	-
Currency swaps	-	21,037	-	21,037
Embedded precious metals	-	62	-	62
	<u>-</u>	<u>22,639</u>	<u>-</u>	<u>22,639</u>

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>
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 (Note 11)	-	132,030	-	132,030
Financial assets available for sale (Note 11)	698,113	76,256	266,385	1,040,754
<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
Non-financial assets:				
Investment properties	-	756,033	-	756,033
	<u>698,113</u>	<u>969,648</u>	<u>266,385</u>	<u>1,934,146</u>

At 31 December 2016

37 FAIR VALUES (continued)

Financial liabilities measured at fair value:				<i>KD 000's</i>
	<i>(Level 1)</i>	<i>(Level 2)</i>	<i>(Level 3)</i>	<i>Total</i>
<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
	-	17,896	-	17,896

Investments classified under level 1 are valued based on the quoted bid price. Investments classified under level 2 are valued based on the reported NAVs.

Level 3 investments included unquoted sukook of KD 331,067 thousand (2015: KD 236,787 thousand) and unquoted equity investments of KD 26,440 thousand (2015: KD 29,598 thousand). Sukook included in this category represent sukook issued by sovereign entities, financial institutions and corporates. The fair values of unquoted sukook are estimated using discounted cash flow method using discount rate (ranging from 1.8% to 5.4%). Unquoted equity investments are fair valued using valuation technique that is appropriate in the circumstances. Valuation techniques include discounted cash flow models, observable market information of comparable companies, recent transaction information and net asset values. Significant unobservable inputs used in valuation techniques mainly include discount rate, terminal growth rate, revenue and profit estimates. The impact on the consolidated statement of financial position or the consolidated statement of income or the consolidated statement of changes in equity would be immaterial if the relevant risk variables used for fair value estimates to fair value the unquoted equity investments were altered by 5%.

Instruments disclosed in Note 26 are valued by discounting all future expected cash-flows using directly observable and quoted rate curves and spot/forward FX rates from recognised market sources (i.e. Reuters, Bloomberg, FinCAD, etc).

Investment properties have been valued based on valuations by valuers who hold a recognised and relevant professional qualification and have recent experience in the location and category of the investment properties being valued. The valuation reflects market conditions at the reporting date with gap of no more than two months.

All investment properties are valued using observable market inputs. Market comparable approach is used for all investment properties, where market price per square meter and annual income are significant inputs to the valuation.

During the year ended 31 December 2016, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

The following table below shows a reconciliation of the opening and the closing amount of level 3 financial assets available for sale:

	<i>KD 000's</i>	
	<i>2016</i>	<i>2015</i>
As at 1 January	266,385	219,879
Re-measurement recognised in other comprehensive income	1,613	204
Purchases, net	89,509	46,302
As at 31 December	357,507	266,385