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

Interim Condensed Consolidated Financial Information
30 June 2018 (Unaudited)

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

Introduction

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

Scope of Review

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

Conclusion

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

Report on Other Legal and Regulatory Requirements

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

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

Report on Other Legal and Regulatory Requirements (continued)

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

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AL AIBAN, AL OSAIMI & PARTNERS

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DELOITTE & TOUCHE
AL-WAZZAN & CO.

8 July 2018
Kuwait

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS (UNAUDITED)
Period ended 30 June 2018

		KD 000's			
		Three months ended		*Six months ended*	
	Notes	***30 June 2018***	*30 June 2017*	***30 June 2018***	*30 June 2017*
Financing income		**21,963**	17,964	**42,500**	34,722
Finance costs and estimated distribution to depositors	3	**(8,384)**	(6,203)	**(15,365)**	(11,724)
Net financing income		**13,579**	11,761	**27,135**	22,998
Fees and commission income		**2,707**	2,076	**5,251**	4,529
Net gain from foreign exchange		**(85)**	272	**418**	461
Investment income		**907**	564	**1,514**	2,533
Other income		**113**	104	**218**	155
TOTAL OPERATING INCOME		**17,221**	14,777	**34,536**	30,676
Staff costs		**(4,579)**	(4,240)	**(8,950)**	(8,235)
General and administrative expenses		**(4,137)**	(3,844)	**(6,679)**	(6,145)
Depreciation		**(553)**	(435)	**(1,093)**	(873)
TOTAL OPERATING EXPENSES		**(9,269)**	(8,519)	**(16,722)**	(15,253)
Profit from operations before provisions and impairment losses		**7,952**	6,258	**17,814**	15,423
Provisions and impairment losses		**(3,469)**	(2,747)	**(5,240)**	(3,950)
PROFIT FROM OPERATIONS		**4,483**	3,511	**12,574**	11,473
Provision for:					
Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)		**(41)**	(33)	**(115)**	(105)
Contribution to National Labor Support Tax (NLST)		**(113)**	(92)	**(318)**	(289)
Contribution to Zakat		**(43)**	(35)	**(123)**	(112)
PROFIT FOR THE PERIOD		**4,286**	3,351	**12,018**	10,967
Attributable to:					
Shareholders of the Bank		**4,267**	3,328	**11,967**	10,915
Non-controlling interests		**19**	23	**51**	52
		4,286	3,351	**12,018**	10,967
Basic and diluted earnings per share attributable to shareholders of the Bank	4	**4.57 fils**	3.56 fils	**12.82 fils**	11.69 fils

The accompanying notes from 1 to 12 form an integral part of this interim condensed consolidated financial information.

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

Period ended 30 June 2018

	Three months ended		Six months ended	
KD 000's	***30 June 2018***	*30 June 2017*	***30 June 2018***	*30 June 2017*
Profit for the period	**4,286**	3,351	**12,018**	10,967
Other comprehensive income:				
Items that may be reclassified to interim condensed consolidated statement of profit or loss				
- Change in fair value of available for sale investments	**-**	2	**-**	124
- Transfer to interim condensed consolidated statement of profit or loss on impairment of available for sale investments	**-**	626	**-**	626
- Net gains on investments in available for sale reclassified to profit or loss on disposal	**-**	-	**-**	(321)
- Change in fair value of debt instruments at fair value through other comprehensive income	**185**	-	**(300)**	-
Items that will not be reclassified to interim condensed consolidated statement of profit or loss				
- Change in fair value of equity investments at fair value through other comprehensive income	**617**	-	**1,205**	-
Other comprehensive income for the period	**802**	628	**905**	429
Total comprehensive income for the period	**5,088**	3,979	**12,923**	11,396
Attributable to:				
Shareholders of the Bank	**5,069**	3,968	**12,874**	11,345
Non-controlling interests	**19**	11	**49**	51
Total comprehensive income for the period	**5,088**	3,979	**12,923**	11,396

The accompanying notes from 1 to 12 form an integral part of this interim condensed consolidated financial information.

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)
As at 30 June 2018

	Notes	***30 June 2018***	*31 December 2017 (Audited)*	*30 June 2017*
				KD 000's
ASSETS				
Cash and balances with banks		**14,834**	19,450	13,246
Due from banks	5	**350,070**	402,902	387,440
Financing receivables		**1,521,220**	1,304,416	1,329,378
Financial assets at fair value through profit or loss		**13,232**	-	-
Financial assets at fair value through other comprehensive income		**75,808**	-	-
Investment securities		**-**	83,840	82,415
Investment in associate		**1,518**	1,518	1,533
Investment properties		**60,238**	60,391	40,176
Other assets		**17,001**	17,298	17,389
Property and equipment		**27,292**	26,225	26,239
TOTAL ASSETS		**2,081,213**	1,916,040	1,897,816
LIABILITIES AND EQUITY				
LIABILITIES				
Due to banks and financial institutions	6	**474,950**	394,438	424,571
Depositors' accounts		**1,290,011**	1,203,213	1,165,727
Other liabilities		**48,830**	54,498	50,464
TOTAL LIABILITIES		**1,813,791**	1,652,149	1,640,762
EQUITY				
Share capital		**103,732**	103,732	103,732
Share premium		**49,480**	49,480	49,480
Treasury shares		**(45,234)**	(45,234)	(45,234)
Other reserves		**156,071**	152,589	145,811
Equity attributable to shareholders of the Bank		**264,049**	260,567	253,789
Non-controlling interests		**3,373**	3,324	3,265
TOTAL EQUITY		**267,422**	263,891	257,054
TOTAL LIABILITIES AND EQUITY		**2,081,213**	1,916,040	1,897,816

Sheikh Mohammed Jarrah Al-Sabah
Chairman

Mohamed Said EL Saka
Acting Chief Executive Officer

The accompanying notes from 1 to 12 form an integral part of this interim condensed consolidated financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
Period ended 30 June 2018

KD 000's

	Attributable to shareholders of the Bank											*Non-controlling interests*	*Total equity*
				Other reserves									
	Share capital	*Share premium*	*Treasury shares*	*Statutory reserve*	*Voluntary reserve*	*Treasury shares reserve*	*Retained earnings*	*Fair valuation reserve*	*Revaluation surplus*	*Total other reserves*	*Total*		
Balance as at 1 January 2018	103,732	49,480	(45,234)	34,656	28,573	4,846	54,907	14,077	15,530	152,589	260,567	3,324	263,891
Impact of adopting IFRS 9 at 1 January 2018 (Refer to Note 2.2)	-	-	-	-	-	-	(735)	680	-	(55)	(55)	-	(55)
Balance as at 1 January 2018 (Restated)	103,732	49,480	(45,234)	34,656	28,573	4,846	54,172	14,757	15,530	152,534	260,512	3,324	263,836
Profit for the period	-	-	-	-	-	-	11,967	-	-	11,967	11,967	51	12,018
Other comprehensive income/(loss)	-	-	-	-	-	-	-	907	-	907	907	(2)	905
Total comprehensive income	-	-	-	-	-	-	11,967	907	-	12,874	12,874	49	12,923
Dividends (Note 7)	-	-	-	-	-	-	(9,337)	-	-	(9,337)	(9,337)	-	(9,337)
Balance as at 30 June 2018	**103,732**	**49,480**	**(45,234)**	**34,656**	**28,573**	**4,846**	**56,802**	**15,664**	**15,530**	**156,071**	**264,049**	**3,373**	**267,422**
Balance as at 1 January 2017	103,732	49,480	(45,234)	32,754	26,671	4,846	49,751	13,498	16,283	143,803	251,781	3,214	254,995
Profit for the period	-	-	-	-	-	-	10,915	-	-	10,915	10,915	52	10,967
Other comprehensive income/(loss)	-	-	-	-	-	-	-	430	-	430	430	(1)	429
Total comprehensive income	-	-	-	-	-	-	10,915	430	-	11,345	11,345	51	11,396
Dividends (Note 7)	-	-	-	-	-	-	(9,337)	-	-	(9,337)	(9,337)	-	(9,337)
Balance as at 30 June 2017	103,732	49,480	(45,234)	32,754	26,671	4,846	51,329	13,928	16,283	145,811	253,789	3,265	257,054

The accompanying notes from 1 to 12 form an integral part of this interim condensed consolidated financial information.

			KD 000's
		Six months ended	
	Note	***30 June 2018***	*30 June 2017*
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the period		**12,018**	10,967
Adjustments for:			
Net gain from foreign exchange		**(418)**	(461)
Dividend income		**(767)**	(602)
Change in fair value of financial assets at fair value through profit or loss		**302**	-
Realised gain from sale of investment securities		**-**	(1,633)
Rental income from investment properties		**(1,049)**	(625)
Depreciation		**1,093**	873
Provisions and impairment losses		**5,240**	3,950
		16,419	12,469
Changes in operating assets and liabilities:			
Due from banks		**64,147**	(29,583)
Financing receivables		**(222,437)**	(64,349)
Other assets		**269**	(4,600)
Due to banks and financial institutions		**80,512**	6,494
Depositors' accounts		**86,798**	40,895
Other liabilities		**(5,154)**	2,600
Net cash from/(used in) operating activities		**20,554**	(36,074)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of financial assets at fair value through other comprehensive income		**(36,231)**	-
Proceeds on redemption of financial assets at fair value through other comprehensive income		**31,622**	-
Purchase of investment securities		**-**	(49,725)
Proceeds on sale of investments securities		**-**	54,753
Purchase of property and equipment		**(2,007)**	(1,479)
Dividend income received		**767**	602
Rental income received		**1,049**	625
Net cash (used)/from in investing activities		**(4,800)**	4,776
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		**(9,050)**	(9,035)
Net cash used in financing activities		**(9,050)**	(9,035)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**6,704**	(40,333)
Cash and cash equivalents at the beginning of the period		**50,516**	100,834
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	8	**57,220**	60,501

The accompanying notes from 1 to 12 form an integral part of this interim condensed consolidated financial information.

1. INCORPORATION AND ACTIVITIES

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

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

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

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

The Bank owns 73.6% of issued share capital of Ritaj Takaful Insurance Company K.S.C.C. ("Ritaj"), Kuwait. Ritaj is engaged in providing Sharia'a compliant insurance services.

The interim condensed consolidated financial information of the Bank and its subsidiary (together the "Group") for the period ended 30 June 2018 were authorized for issue by the Bank's Board of Directors on 8 July 2018.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

The interim condensed consolidated financial information of the Group has been prepared in accordance with International Accounting Standard (IAS) 34, 'Interim Financial Reporting'. The accounting policies used in the preparation of these interim condensed consolidated financial information are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2017 except for the changes described below arising from the partial adoption of IFRS 9 'Financial Instruments' effective from 1 January 2018.

The annual consolidated financial statements for the year ended 31 December 2017 were prepared in accordance with the regulations of the State of Kuwait for financial services institutions regulated by the CBK. These regulations require adoption of all International Financial Reporting Standards ("IFRS") except for the requirement of IAS 39, 'Financial Instruments: Recognition and Measurement', for collective impairment provision, which has been replaced by the Central Bank of Kuwait's requirement for a minimum general provision made on all applicable financing receivables (net of certain categories of collateral) that are not specifically provided for.

The interim condensed consolidated financial information does not contain all information and disclosures required for the annual consolidated financial statements prepared in accordance with International Financial Reporting Standards, and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2017. Further, results for interim periods are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2018.

The consolidated financial statements are presented in Kuwaiti Dinars ("KD") which is the functional currency of the Group, rounded to the nearest thousand Dinars, except when otherwise stated.

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

2.2 SIGNIFICANT ACCOUNTING POLICIES

IFRS 15 Revenue from Contracts with Customers

The Group has adopted IFRS 15 Revenue from contracts with customers effective from 1 January 2018. This standard supersedes IAS 11 Construction Contracts and IAS 18 Revenue along with related IFRIC 13, IFRIC 15, IFRIC 18 and SIC 31. This standard removes inconsistencies and weaknesses in previous revenue recognition requirements, provides a more robust framework for addressing revenue issues and improves comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets. The adoption of this standard does not result in any change in accounting policies of the Group and does not have any material effect on the Group's interim condensed consolidated financial information.

IFRS 9 Financial Instruments

The Group has adopted IFRS 9 Financial Instruments effective from 1 January 2018 with the exception of requirements of the expected credit losses on financing receivables, which have been replaced by the provisioning requirements of the CBK. IFRS 9 sets out the requirements for recognising and measuring financial assets and financial liabilities, impairment of financial assets and hedge accounting. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

The Group has not restated comparative information for 2017 as permitted by the transitional provisions of the standard. Therefore, the information presented for 2017 does not reflect the requirements of IFRS 9 and is not comparable to the information presented for 2018. Differences in the carrying amount of financial assets resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018 and are disclosed in Note 2.2.

The key changes to the Group’s accounting policies resulting from the adoption of IFRS 9 are summarised below:

Classification and Measurement of Financial assets

The Group classifies its financial assets upon initial recognition into the following categories:

- Financial assets carried at amortised cost
- Financial assets carried at fair value through other comprehensive income (“FVOCI”)
- Financial assets carried at fair value through profit or loss (“FVPL”)

Financial assets carried at amortised cost:

A financial asset is carried at amortised cost if it meets both of the following conditions:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and profit on the principal amount outstanding.

Financial assets carried at amortised cost are subsequently measured at amortised cost using the effective yield method. Financing income, foreign exchange gains and losses and impairment are recognised in the consolidated statement of profit or loss. Any gain or loss on derecognition is recognised in the consolidated statement of profit or loss.

Financial assets carried at FVOCI:

a) Debt securities at FVOCI

A debt investment is carried at FVOCI if it meets both of the following conditions:

- It is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

Debt securities at FVOCI are subsequently measured at fair value. Profit calculated using the effective yield method, foreign exchange gains and losses and impairment losses are recognised in the consolidated statement of profit or loss. Fair value changes which are not part of an effective hedging relationship are recognised in other comprehensive income and presented in the cumulative changes in fair values as part of equity until the asset is derecognised or reclassified. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to the consolidated statement of profit or loss.

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

2.2 SIGNIFICANT ACCOUNTING POLICIES (continued)

IFRS 9 Financial Instruments (continued)

Classification and Measurement of Financial assets (continued)

b) Equity investments at FVOCI

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

Equity investments at FVOCI are subsequently measured at fair value. Changes in fair values including foreign exchange component are recognised in other comprehensive income and presented in the fair values reserves as part of equity. Cumulative gains and losses previously recognised in other comprehensive income are transferred to retained earnings on derecognition and are not recognised in the consolidated statement of profit or loss. Dividend income on equity investments at FVOCI are recognised in the consolidated statement of profit or loss unless they clearly represent a recovery of part of the cost of the investment in which case they are recognised in other comprehensive income. Equity investments at FVOCI are not subject to impairment assessment.

Financial assets carried at FVPL:

Financial assets in this category are those assets which have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9. Management designates an instrument at FVPL that otherwise meet the requirements to be measured at amortised cost or at FVOCI only if it eliminates, or significantly reduces, an accounting mismatch that would otherwise arise. Financial assets with contractual cash flows not representing solely payment of principal and profit are mandatorily required to be measured at FVPL.

Financial assets at FVPL are subsequently measured at fair value. Changes in fair value are recognised in the consolidated statement of profit or loss. Profit is recognised using the effective yield method. Dividend income from equity investments measured at FVPL is recognised in the consolidated statement of profit or loss when the right to the payment has been established.

Business model assessment

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Group's business model is not assessed on an instrument-by-instrument basis but at a higher level of aggregated portfolios and is based on a number of observable factors. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed; and
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity.

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

Assessment of whether contractual cash flows are Solely Payments of Principal and Profit (“SPPP test”)

The Group assesses the contractual terms of financial assets to identify whether they meet the SPPP test. ‘Principal’ for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset. Profit is defined as consideration for time value of money and for the credit risk associated with the principal and for other basic lending risks and costs as well as a profit margin. In assessing whether the contractual cash flows (“CCF”) are solely payments of principal and profit, the Group considers whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. The Group considers:

- Contingent events that would change the amount and timing of cash flows;
- Leverage features;
- Prepayment and extension terms;
- Terms that limit the Group’s claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- Features that modify consideration of the time value of money – e.g. periodical reset of profit rates.

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

2.2 SIGNIFICANT ACCOUNTING POLICIES (continued)

IFRS 9 Financial Instruments (continued)

Business model assessment (continued)

Contractual terms that introduce a more than minimum exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payment of principal and profit. In such cases, the financial asset is measured at fair value through profit or loss.

Reclassification of financial assets

The Group does not reclassify its financial assets subsequent to their initial recognition apart in the exceptional circumstances in which the Group acquires, disposes of, or terminates a business line.

Impairment of financial assets

The Group recognises Expected Credit Losses ("ECL") for debt instruments other than financing receivables, measured at amortised cost or FVOCI. The Group applies a three-stage approach to measure the expected credit loss as follows:

Stage 1: 12-months ECL	:	The Group measures loss allowances at an amount equal to 12-months ECL on financial assets where there has not been significant increase in credit risk since their initial recognition or on exposures that are determined to have a low credit risk at the reporting date. The Group considers a financial asset to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade'.
Stage 2: Lifetime ECL – not credit impaired	:	The Group measures loss allowances at an amount equal to lifetime ECL on financial assets where there has been a significant increase in credit risk since initial recognition but are not credit impaired.
Stage 3: Lifetime ECL – credit impaired	:	The Group measures loss allowances at an amount equal to lifetime ECL on financial assets that are determined to be credit impaired based on objective evidence of impairment.

Lifetime expected credit losses are ECLs that result from all possible default events over the expected life of a financial instrument. The 12 months ECL is the portion of lifetime expected credit loss that result from default events that are possible within the 12 months after the reporting date. Both lifetime expected credit losses and 12 month ECLs are calculated on either an individual basis or a collective basis depending on the nature of the underlying portfolio of financial instruments.

Determining the stage for impairment

At each reporting date, the Group assesses whether a financial asset or group of financial assets is credit impaired. The Group considers a financial asset to be impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred or when contractual payments are 90 days past due.

At each reporting date, the Group also assesses whether there has been significant increase in credit risk since initial recognition by comparing the risk of default occurring over the remaining expected life from the reporting date with the risk of default at the date of initial recognition. The quantitative criteria used to determine a significant increase in credit risk is a series of relative and absolute thresholds. All financial assets that are 30 days past due are deemed to have significant increase in credit risk since initial recognition and migrated to stage 2 even if other criteria do not indicate a significant increase in credit risk.

Measurement of ECLs

Expected credit losses are probability-weighted estimate of credit losses and are measured as the present value of all cash shortfalls discounted at the effective interest rate of the financial instrument. Cash shortfall represent the difference between cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive. The key elements in the measurement of ECL include probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD"). The Group estimates these elements using appropriate credit risk models taking into consideration of the internal and external credit ratings of the assets, nature and value of collaterals, forward looking macro economic scenarios etc.

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

2.2 SIGNIFICANT ACCOUNTING POLICIES (continued)

IFRS 9 Financial Instruments (continued)

Presentation of allowance for ECL in the consolidated statement of financial position

Loss allowances for ECL are presented as a deduction from the gross carrying amount of the financial assets for financial assets carried at amortised cost. In the case of debt instruments measured at FVOCI, the Group recognises the provision charge in the consolidated statement of profit or loss with the corresponding amount recognised in other comprehensive income with no reduction in the carrying amount of the financial asset in the consolidated statement of financial position.

Impairment of financing receivables

The Group recognises provision charge for financing receivables in accordance with the provisioning requirements of CBK. At each reporting date, the Group assesses whether there is any objective evidence that a financial asset classified as financing receivables or a group of such financial assets are impaired. A financial asset or a group of financial assets is deemed to be impaired if and only if there is objective evidence of impairment as a result of one or more events that has 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. If such evidence exists, any impairment loss is recognised in the consolidated statement of profit or loss.

The amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows 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 amount of the loss is recognised in the consolidated statement of profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the consolidated statement of profit or loss. In addition, in accordance with CBK instructions, a minimum general provision is made on all applicable financing receivables (net of certain categories of collateral) that are not provided for specifically.

IFRS 9 transition disclosures

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Group's financial assets as at 1 January 2018.

KD 000's

	Original classification under IAS 39	**New classification under IFRS 9**	**Original carrying amount under IAS 39**	**Re-measurement ECL**	**New carrying amount under IFRS 9**
Financial assets:					
Cash and balances with banks	Loans and receivable	Amortised cost	19,450	(2)	**19,448**
Due from banks	Loans and receivable	Amortised cost	402,902	(14)	**402,888**
Investments - Debt	AFS	FVOCI	43,891	-	**43,891**
Investments - Equity	AFS	FVOCI	26,353	-	**26,353**
Investments - Equity	AFS	FVPL	13,534	-	**13,534**
Investments – Equity	FVPL	FVOCI	8	-	**8**
Investments - Equity	FVPL	FVPL	54	-	**54**
Other assets	Loans and receivable	Amortised cost	17,298	(39)	**17,259**

Adoption of IFRS 9 did not result in any change in classification or measurement of financial liabilities.

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

2.2 SIGNIFICANT ACCOUNTING POLICIES (continued)

IFRS 9 Financial Instruments (continued)

IFRS 9 transition disclosures (continued)

The following table analysis the impact of transition to IFRS 9 on reserves and retained earnings.

	KD 000's	
	Retained earnings	Fair value reserve
Closing balance under IAS 39 (31 December 2017)	**54,907**	**14,077**
Impact on reclassification and re-measurements:		
Investment securities - equity from available-for-sale to FVPL	**(652)**	**652**
Impact on recognition of ECL on financial assets other than financing receivables:		
ECL under IFRS 9 for financial assets - debt at FVOCI	**(28)**	**28**
ECL under IFRS 9 for financial assets - other assets at amortised cost	**(55)**	**-**
Opening balance under IFRS 9 on date of initial application of 1 January 2018	**54,172**	**14,757**

3. FINANCE COSTS AND ESTIMATED DISTRIBUTION TO DEPOSITORS

The management of the Bank has estimated distribution to depositors and profit attributable to Bank's shareholders based on the results for the six months period ended 30 June 2018. The actual distribution to depositors for deposits of tenures exceeding 6 months could be different from the amounts presented in the interim condensed consolidated statement of profit or loss. The actual profit to be distributed to these depositors will be determined by the Board of Directors of the Bank in accordance with the Bank's articles of association, based on the annual audited results for the year ending 31 December 2018.

4. BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share are computed by dividing profit for the period attributable to the shareholders of the Bank by the weighted average number of shares outstanding during the period, less treasury shares, as follows:

	Three months ended		*Six months ended*	
	30 June 2018	*30 June 2017*	***30 June 2018***	*30 June 2017*
Profit for the period attributable to the shareholders of the Bank (KD 000's)	**4,267**	3,328	**11,967**	10,915
Weighted average number of shares outstanding (shares'000)	**933,689**	933,689	**933,689**	933,689
Basic and diluted earnings per share	**4.57 fils**	3.56 fils	**12.82 fils**	11.69 fils

5. DUE FROM BANKS

			KD 000's
	30 June 2018	*31 December 2017 (Audited)*	*30 June 2017*
Tawarruq transactions with CBK and government debts	**257,719**	306,268	293,401
Murabaha finance with banks (contractual maturity of 90 days or less)	**42,386**	31,066	47,255
Murabaha finance with banks (contractual maturity of more than 90 days)	**49,965**	65,568	46,784
	350,070	402,902	387,440

6. DUE TO BANKS AND FINANCIAL INSTITUTIONS

	KD 000's		
	30 June 2018	*31 December 2017 (Audited)*	*30 June 2017*
Murabaha payable to banks	**71,501**	86,892	101,557
Murabaha payable to financial institutions	**394,105**	296,467	311,409
Current and call accounts	**9,344**	11,079	11,605
	474,950	394,438	424,571

During the current quarter, the Bank obtained an unsecured syndication Murabaha financing amounting to USD 250 million (equivalent to KD 76 million) for a tenor of 3 years, of which USD 150 million was drawn in June 2018. The Bank also settled the remaining balance of USD 320 million unsecured syndication Murabaha obtained in 2015 amounting to USD 80 million (equivalent to KD 24 million) during the current quarter.

7. DIVIDENDS

The Annual General Assembly meeting of the Bank's shareholders held on 24 March 2018 approved the distribution of cash dividends of 10 fils per share amounting to KD 9,337 thousand for the year ended 31 December 2017 (31 December 2016: 10 fils per share amounting to KD 9,337 thousand).

8. CASH AND CASH EQUIVALENTS

	KD 000's		
	30 June 2018	*31 December 2017 (Audited)*	*30 June 2017*
Cash and balances with banks	**14,834**	19,450	13,246
Murabaha finance with banks (contractual maturity of 90 days or less)	**42,386**	31,066	47,255
	57,220	50,516	60,501

9. RELATED PARTY TRANSACTIONS

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

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

KD 000's

				Total		
	Major shareholders and other related parties	***Associate***	***Directors and Executive officers***	***30 June 2018***	*31 December 2017 (Audited)*	*30 June 2017*
Balances						
Financing receivables	**70,529**	**-**	**33,938**	**104,467**	93,077	90,714
Credit cards	**-**	**-**	**62**	**62**	59	46
Deposits	**5,356**	**7**	**3,001**	**8,364**	5,185	4,795
Commitments	**11,791**	**-**	**1,770**	**13,561**	10,144	21,212
Collaterals against credit facilities	**73,949**	**-**	**57,953**	**131,902**	113,366	129,078
Transactions						
Financing income	**1,765**	**-**	**690**	**2,455**	4,284	1,051
Distribution to depositors	**-**	**-**	**14**	**14**	34	17

	30 June 2018		*31 December 2017 (Audited)*		*30 June 2017*	
	No. of Directors and Executive officers	***Amount***	*No. of Directors and Executive officers*	*Amount*	*No. of Directors and Executive officers*	*Amount*
		KD 000's		*KD 000's*		*KD 000's*
Directors						
Financing receivables	**5**	**33,899**	4	26,491	4	26,631
Deposits	**7**	**2,266**	7	2,977	7	2,731
Commitments	**4**	**1,701**	4	578	5	10,651
Collaterals against credit facilities	**4**	**57,914**	4	46,387	5	62,089
Executive officers						
Financing receivables	**6**	**39**	8	63	9	106
Credit cards	**16**	**62**	14	59	13	46
Deposits	**20**	**735**	19	501	17	346
Commitments	**16**	**69**	16	79	15	75
Collaterals against credit facilities	**8**	**39**	9	41	7	27

9. RELATED PARTY TRANSACTIONS (continued)

Key management personnel compensation

				KD 000's
	Three months ended		*Six months ended*	
	30 June 2018	*30 June 2017*	***30 June 2018***	*30 June 2017*
Short-term benefits	**451**	345	**886**	697
Post-employment benefits	**31**	23	**60**	47

10. COMMITMENTS AND CONTINGENT LIABILITIES

			KD 000's
	30 June 2018	*31 December 2017 (Audited)*	*30 June 2017*
Acceptances	**17,142**	36,958	23,773
Letters of credit	**14,836**	22,066	14,662
Letters of guarantee	**278,542**	269,324	242,920
	310,520	328,348	281,355

The Group also has revocable cash commitments to extend credit amounting to KD 194,988 thousand (31 December 2017: KD 169,050 thousand, 30 June 2017: KD 161,938 thousand).

11. SEGMENT INFORMATION

The Group's operating segments are determined based on the reports reviewed by the Chief Executive Officer that are used for strategic decisions. These segments are strategic business units that offer different products and services. They are managed separately since the nature of the products and services, class of customers and marketing strategies of these segments are different.

These operating segments meet the criteria for reportable segments and are as follows:

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

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

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

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

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

KD 000's

	Commercial and International Banking	*Retail Banking*	*Treasury, Fund Management and Institutional Banking*	*Investment management*	*Others*	*Total*
30 June 2018						
Segment operating income/(loss)	**31,203**	**3,677**	**(3,520)**	**1,825**	**1,351**	**34,536**
Segment result	**14,448**	**521**	**957**	**(394)**	**(3,514)**	**12,018**
Segment assets	**1,323,158**	**240,770**	**346,114**	**130,353**	**40,818**	**2,081,213**
Segment liabilities	**287,758**	**614,948**	**867,744**	**-**	**43,341**	**1,813,791**
30 June 2017						
Segment operating income/(loss)	25,372	4,358	(3,063)	2,755	1,254	30,676
Segment result	12,077	644	1,520	361	(3,635)	10,967
Segment assets	1,134,131	223,406	395,784	103,407	41,088	1,897,816
Segment liabilities	258,932	588,520	746,696	-	46,614	1,640,762

The Group operates from the State of Kuwait only.

12. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

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

				KD 000's
	Level 1	*Level 2*	*Level 3*	*Total*
30 June 2018				
Financial assets at FVPL:				
Quoted equity securities	**13,232**	**-**	**-**	**13,232**
Financial assets at FVOCI:				
Unquoted equity securities	**-**	**-**	**27,574**	**27,574**
Sukuks	**47,732**	**-**	**502**	**48,234**
	60,964	**-**	**28,076**	**89,040**
31 December 2017				
Investment securities				
Financial assets at fair value through profit or loss:				
Quoted equity securities	62	-	-	62
Financial assets available for sale:				
Quoted equity securities	13,534	-	-	13,534
Unquoted equity securities	-	-	26,353	26,353
Sukuks	43,157	-	734	43,891
	56,753	-	27,087	83,840
30 June 2017				
Investment securities				
Financial assets at fair value through profit or loss:				
Quoted equity securities	58	-	-	58
Financial assets available for sale:				
Quoted equity securities	13,355	-	-	13,355
Unquoted equity securities	-	-	27,850	27,850
Sukuks	40,415	-	737	41,152
	53,828	-	28,587	82,415

There has been no change in valuation techniques as compared to prior periods. During the period ended 30 June 2018, there were no transfers between the levels.