



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

**Interim Condensed Consolidated Financial Information
30 September 2018 (Unaudited)**

I N D E X

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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 September 2018, and the related interim condensed consolidated statement of profit or loss and interim condensed consolidated statement of profit or loss and other comprehensive income for the three and nine-month periods then ended, and the related interim condensed consolidated statements of changes in equity and cash flows for the nine-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 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 nine-month period ended 30 September 2018 that might have had a material effect on the business of the Bank or on its financial position.

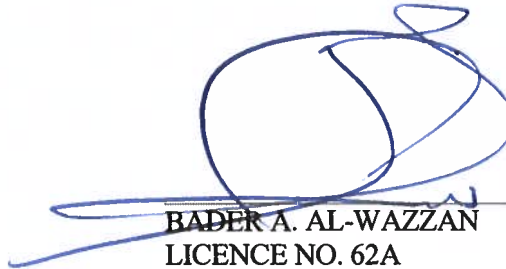
**REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION
TO THE BOARD OF DIRECTORS OF KUWAIT INTERNATIONAL BANK K.S.C.P. (CONTINUED)**

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 nine-month period ended 30 September 2018 that might have had a material effect on the business of the Bank or on its financial position.



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AL AIBAN, AL OSAIMI & PARTNERS



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8 October 2018
Kuwait

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS (UNAUDITED)

Period ended 30 September 2018

	Notes	<i>KD 000's</i>			
		<i>Three months ended</i>		<i>Nine months ended</i>	
		30 September 2018	<i>30 September 2017</i>	30 September 2018	<i>30 September 2017</i>
Financing income		22,386	18,779	64,886	53,501
Finance costs and estimated distribution to depositors	3	(10,274)	(6,942)	(25,639)	(18,666)
Net financing income		12,112	11,837	39,247	34,835
Fees and commission income		2,091	2,362	7,342	6,891
Net gain from foreign exchange		352	189	770	650
Investment income		402	440	1,916	2,973
Other income		135	150	353	305
TOTAL OPERATING INCOME		15,092	14,978	49,628	45,654
Staff costs		(5,332)	(4,869)	(14,282)	(13,104)
General and administrative expenses		(4,613)	(4,174)	(11,292)	(10,319)
Depreciation		(542)	(461)	(1,635)	(1,334)
TOTAL OPERATING EXPENSES		(10,487)	(9,504)	(27,209)	(24,757)
Profit from operations before provisions and impairment losses		4,605	5,474	22,419	20,897
Provisions and impairment losses		(897)	(2,760)	(6,137)	(6,710)
PROFIT FROM OPERATIONS		3,708	2,714	16,282	14,187
Provision for:					
Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)		(34)	(25)	(149)	(130)
Contribution to National Labor Support Tax (NLST)		(91)	(80)	(409)	(369)
Contribution to Zakat		(38)	(32)	(161)	(144)
PROFIT FOR THE PERIOD		3,545	2,577	15,563	13,544
<i>Attributable to:</i>					
Shareholders of the Bank		3,513	2,553	15,480	13,468
Non-controlling interests		32	24	83	76
		3,545	2,577	15,563	13,544
Basic and diluted earnings per share attributable to shareholders of the Bank	4	3.76 fils	2.73 fils	16.58 fils	14.42 fils

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 PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (UNAUDITED)

Period ended 30 September 2018

KD 000's

	<i>Three months ended</i>		<i>Nine months ended</i>	
	<i>30 September 2018</i>	<i>30 September 2017</i>	<i>30 September 2018</i>	<i>30 September 2017</i>
Profit for the period	3,545	2,577	15,563	13,544
Other comprehensive income:				
<i>Items that may be reclassified to interim condensed consolidated statement of profit or loss</i>				
- Change in fair value of available for sale investments	-	107	-	231
- Transfer to interim condensed consolidated statement of profit or loss on impairment of available for sale investments	-	77	-	703
- 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	60	-	(240)	-
<i>Items that will not be reclassified to interim condensed consolidated statement of profit or loss</i>				
- Change in fair value of equity investments at fair value through other comprehensive income	2	-	1,207	-
Other comprehensive income for the period	62	184	967	613
Total comprehensive income for the period	3,607	2,761	16,530	14,157
Attributable to:				
Shareholders of the Bank	3,575	2,708	16,449	14,053
Non-controlling interests	32	53	81	104
Total comprehensive income for the period	3,607	2,761	16,530	14,157

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 September 2018

		<i>KD 000's</i>		
	<i>Notes</i>	30 September 2018	<i>31 December 2017</i> <i>(Audited)</i>	30 September 2017
ASSETS				
Cash and balances with banks		56,480	19,450	39,344
Due from banks	5	306,128	402,902	374,209
Financing receivables		1,543,094	1,304,416	1,310,501
Financial assets at fair value through profit or loss		13,635	-	-
Financial assets at fair value through other comprehensive income		54,784	-	-
Investment securities		-	83,840	82,499
Investment in associate		1,518	1,518	1,525
Investment properties		60,161	60,391	40,146
Other assets		14,888	17,298	14,737
Property and equipment		27,235	26,225	26,278
TOTAL ASSETS		<u>2,077,923</u>	<u>1,916,040</u>	<u>1,889,239</u>
LIABILITIES AND EQUITY				
LIABILITIES				
Due to banks and financial institutions	6	447,850	394,438	404,142
Depositors' accounts		1,304,288	1,203,213	1,168,533
Other liabilities		54,756	54,498	56,749
TOTAL LIABILITIES		<u>1,806,894</u>	<u>1,652,149</u>	<u>1,629,424</u>
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		159,646	152,589	148,519
Equity attributable to shareholders of the Bank		<u>267,624</u>	<u>260,567</u>	<u>256,497</u>
Non-controlling interests		3,405	3,324	3,318
TOTAL EQUITY		<u>271,029</u>	<u>263,891</u>	<u>259,815</u>
TOTAL LIABILITIES AND EQUITY		<u>2,077,923</u>	<u>1,916,040</u>	<u>1,889,239</u>


Sheikh Mohammed Jarrah Al-Sabah

Chairman


Raed Jawad Bukhamseen

Vice Chairman and Chief Executive Officer

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 CHANGES IN EQUITY (UNAUDITED)

Period ended 30 September 2018

	<i>Attributable to shareholders of the Bank</i>											<i>Non-controlling interests</i>	<i>Total equity</i>
	<i>Other reserves</i>												
	<i>Share capital</i>	<i>Share premium</i>	<i>Treasury shares</i>	<i>Statutory reserve</i>	<i>Voluntary reserve</i>	<i>Treasury shares reserve</i>	<i>Retained earnings</i>	<i>Fair valuation reserve</i>	<i>Revaluation surplus</i>	<i>Total other reserves</i>	<i>Total</i>		
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	-	-	-	-	-	-	15,480	-	-	15,480	15,480	83	15,563
Other comprehensive income/(loss)	-	-	-	-	-	-	-	969	-	969	969	(2)	967
Total comprehensive income	-	-	-	-	-	-	15,480	969	-	16,449	16,449	81	16,530
Dividends (Note 7)	-	-	-	-	-	-	(9,337)	-	-	(9,337)	(9,337)	-	(9,337)
Balance as at 30 September 2018	103,732	49,480	(45,234)	34,656	28,573	4,846	60,315	15,726	15,530	159,646	267,624	3,405	271,029
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	-	-	-	-	-	-	13,468	-	-	13,468	13,468	76	13,544
Other comprehensive income	-	-	-	-	-	-	-	585	-	585	585	28	613
Total comprehensive income	-	-	-	-	-	-	13,468	585	-	14,053	14,053	104	14,157
Dividends (Note 7)	-	-	-	-	-	-	(9,337)	-	-	(9,337)	(9,337)	-	(9,337)
Balance as at 30 September 2017	103,732	49,480	(45,234)	32,754	26,671	4,846	53,882	14,083	16,283	148,519	256,497	3,318	259,815

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 CASH FLOWS (UNAUDITED)

Period ended 30 September 2018

	<i>KD 000's</i>	
	<i>Nine months ended</i>	
	<i>30 September</i>	<i>30 September</i>
<i>Note</i>	<i>2018</i>	<i>2017</i>
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the period	15,563	13,544
Adjustments for:		
Net gain from foreign exchange	(770)	(650)
Dividend income	(767)	(602)
Change in fair value of financial assets at fair value through profit or loss	(64)	-
Realised gain from sale of investment securities	-	(1,613)
Rental income from investment properties	(1,085)	(952)
Depreciation	1,635	1,334
Provisions and impairment losses	6,137	6,710
	20,649	17,771
<i>Changes in operating assets and liabilities:</i>		
Due from banks	118,095	(34,560)
Financing receivables	(245,427)	(48,027)
Other assets	2,378	(1,948)
Due to banks and financial institutions	53,412	(13,935)
Depositors' accounts	101,075	43,701
Other liabilities	1,522	9,169
Net cash from/(used in) operating activities	51,704	(27,829)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of financial assets at fair value through other comprehensive income	(39,541)	-
Proceeds on redemption of financial assets at fair value through other comprehensive income	55,986	-
Purchase of investment securities	-	(73,882)
Proceeds on sale of investments securities	-	78,921
Purchase of property and equipment	(2,415)	(1,949)
Dividend income received	767	602
Rental income received	1,085	952
Net cash from investing activities	15,882	4,644
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(9,223)	(9,258)
Net cash used in financing activities	(9,223)	(9,258)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		
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	68,391

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)
30 September 2018

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 September 2018 were authorized for issue by the Bank’s Board of Directors on 8 October 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.

			<i>KD 000's</i>		
	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
<i>Financial assets:</i>					
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.

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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.

	<i>KD 000's</i>	
	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 nine-month period ended 30 September 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:

	<i>Three months ended</i>		<i>Nine months ended</i>	
	<i>30 September 2018</i>	<i>30 September 2017</i>	<i>30 September 2018</i>	<i>30 September 2017</i>
Profit for the period attributable to the shareholders of the Bank (KD 000's)	3,513	2,553	15,480	13,468
Weighted average number of shares outstanding (shares'000)	933,689	933,689	933,689	933,689
Basic and diluted earnings per share	3.76 fils	2.73 fils	16.58 fils	14.42 fils

5. DUE FROM BANKS

	<i>KD 000's</i>		
	<i>30 September 2018</i>	<i>31 December 2017</i> (Audited)	<i>30 September 2017</i>
Tawarruq transactions with CBK and government debts	214,482	306,268	282,178
Murabaha finance with banks (contractual maturity of 90 days or less)	52,399	31,066	29,047
Murabaha finance with banks (contractual maturity of more than 90 days)	39,247	65,568	62,984
	306,128	402,902	374,209

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6. DUE TO BANKS AND FINANCIAL INSTITUTIONS

	<i>KD 000's</i>		
	<u>30 September</u> <u>2018</u>	<u>31 December</u> <u>2017</u> <i>(Audited)</i>	<u>30 September</u> <u>2017</u>
Murabaha payable to banks	83,526	86,892	97,388
Murabaha payable to financial institutions	354,105	296,467	295,823
Current and call accounts	10,219	11,079	10,931
	447,850	394,438	404,142

During the current period, the Bank obtained an unsecured syndication Murabaha financing amounting to USD 250 million (equivalent to KD 76 million) for a tenor of 3 years. 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 period.

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

	<i>KD 000's</i>		
	<u>30 September</u> <u>2018</u>	<u>31 December</u> <u>2017</u> <i>(Audited)</i>	<u>30 September</u> <u>2017</u>
Cash and balances with banks	56,480	19,450	39,344
Murabaha finance with banks (contractual maturity of 90 days or less)	52,399	31,066	29,047
	108,879	50,516	68,391

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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:

	<i>KD 000's</i>					
			<i>Total</i>			
	<i>Major shareholders and other related parties</i>	<i>Associate</i>	<i>Directors and Executive officers</i>	<i>30 September 2018</i>	<i>31 December 2017</i>	<i>30 September 2017</i>
					<i>(Audited)</i>	
Balances						
Financing receivables	69,648	-	33,801	103,449	93,077	92,226
Credit cards	-	-	74	74	59	41
Deposits	5,230	7	2,178	7,415	5,185	6,277
Commitments	21,032	-	1,830	22,862	22,383	45,259
Collaterals against credit facilities	84,194	-	59,841	144,035	113,366	129,633
Transactions						
Financing income	2,665	-	1,099	3,764	4,284	3,152
Distribution to depositors	18	-	21	39	34	27
	<i>30 September 2018</i>		<i>31 December 2017</i>	<i>30 September 2017</i>		
	<i>No. of Directors and Executive officers</i>		<i>No. of Directors and Executive officers</i>	<i>(Audited)</i>		
		<i>Amount</i>		<i>Amount</i>	<i>No. of Directors and Executive officers</i>	<i>Amount</i>
		<i>KD 000's</i>		<i>KD 000's</i>		<i>KD 000's</i>
Directors						
Financing receivables	5	33,619	4	26,491	4	26,307
Deposits	8	1,216	7	2,977	7	2,949
Commitments	4	1,751	4	613	4	10,622
Collaterals against credit facilities	4	59,802	4	46,387	4	62,631
Executive officers						
Financing receivables	6	182	8	63	9	105
Credit cards	19	74	14	59	13	41
Deposits	19	962	19	501	17	390
Commitments	19	79	16	79	14	77
Collaterals against credit facilities	8	39	9	41	7	27

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9. RELATED PARTY TRANSACTIONS (continued)

Key management personnel compensation

	<i>KD 000's</i>			
	<i>Three months ended</i>		<i>Nine months ended</i>	
	<i>30 September</i>	<i>30 September</i>	<i>30 September</i>	<i>30 September</i>
	2018	2017	2018	2017
Short-term benefits	469	367	1,355	1,064
Post-employment benefits	32	25	92	72

10. COMMITMENTS AND CONTINGENT LIABILITIES

	<i>KD 000's</i>		
	<i>30 September</i>	<i>31 December</i>	<i>30 September</i>
	2018	2017	2017
		<i>(Audited)</i>	
Acceptances	14,105	36,958	27,075
Letters of credit	11,324	22,066	12,389
Letters of guarantee	265,730	269,324	256,952
	291,159	328,348	296,416

The Group also has revocable cash commitments to extend credit amounting to KD 187,476 thousand (31 December 2017: KD 169,050 thousand, 30 September 2017: KD 177,914 thousand).

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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.

	<i>KD 000's</i>					
	<i>Commercial and International Banking</i>	<i>Retail Banking</i>	<i>Treasury, Fund Management and Institutional Banking</i>	<i>Investment management</i>	<i>Others</i>	<i>Total</i>
30 September 2018						
Segment operating income/(loss)	47,586	4,477	(6,522)	2,406	1,681	49,628
Segment result	23,222	(165)	836	(963)	(7,367)	15,563
Segment assets	1,340,837	245,018	319,545	133,925	38,598	2,077,923
Segment liabilities	296,764	737,557	723,387	-	49,186	1,806,894
30 September 2017						
Segment operating income/(loss)	39,117	6,184	(4,693)	3,300	1,746	45,654
Segment result	18,106	278	2,092	(93)	(6,839)	13,544
Segment assets	1,095,865	225,247	426,129	103,565	38,433	1,889,239
Segment liabilities	264,285	597,773	714,548	-	52,818	1,629,424

The Group operates from the State of Kuwait only.

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

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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:

	<i>KD 000's</i>			
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
30 September 2018				
<i>Financial assets at FVPL:</i>				
Quoted equity securities	13,635	-	-	13,635
<i>Financial assets at FVOCI:</i>				
Unquoted equity securities	-	-	27,578	27,578
Sukuks	26,901	-	305	27,206
	<u>40,536</u>	<u>-</u>	<u>27,883</u>	<u>68,419</u>
31 December 2017				
Investment securities				
<i>Financial assets at fair value through profit or loss:</i>				
Quoted equity securities	62	-	-	62
<i>Financial assets available for sale:</i>				
Quoted equity securities	13,534	-	-	13,534
Unquoted equity securities	-	-	26,353	26,353
Sukuks	43,157	-	734	43,891
	<u>56,753</u>	<u>-</u>	<u>27,087</u>	<u>83,840</u>
30 September 2017				
Investment securities				
<i>Financial assets at fair value through profit or loss:</i>				
Quoted equity securities	72	-	-	72
<i>Financial assets available for sale:</i>				
Quoted equity securities	13,581	-	-	13,581
Unquoted equity securities	-	-	27,834	27,834
Sukuks	40,277	-	735	41,012
	<u>53,930</u>	<u>-</u>	<u>28,569</u>	<u>82,499</u>

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