

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

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

31 MARCH 2018

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME

(UNAUDITED)

For the period ended 31 March 2018

		<i>KD 000's</i>	
		<i>Three months ended</i>	
	<i>Notes</i>	<i>31 March 2018</i>	<i>31 March 2017</i>
INCOME			
Financing income		208,619	167,018
Finance cost and estimated distribution to depositors	4	(70,243)	(66,918)
Net finance income		138,376	100,100
Investment income		11,301	27,207
Fees and commission income		22,818	25,810
Net gain from foreign currencies		6,936	4,468
Other operating income		9,683	11,029
TOTAL OPERATING INCOME		189,114	168,614
OPERATING EXPENSES			
Staff costs		(49,363)	(41,203)
General and administrative expenses		(21,535)	(20,458)
Depreciation and amortization		(7,914)	(8,232)
TOTAL OPERATING EXPENSES		(78,812)	(69,893)
NET OPERATING INCOME		110,302	98,721
Provisions and impairment		(47,572)	(43,380)
Loss for the period from discontinuing operations		(4,304)	(4,060)
PROFIT FOR THE PERIOD BEFORE TAXATION		58,426	51,281
Taxation	6	(7,041)	(8,267)
PROFIT FOR THE PERIOD		51,385	43,014
Attributable to:			
Shareholders of the Bank		43,965	38,588
Non-controlling interests		7,420	4,426
		51,385	43,014
BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO THE SHAREHOLDERS OF THE BANK			
	5	7.03 fils	6.17 fils

The attached notes 1 to 16 form part of the interim condensed consolidated financial information.

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE
INCOME (UNAUDITED)

For the period ended 31 March 2018

	<i>KD 000's</i>	
	<i>Three months ended</i>	
	<i>31 March 2018</i>	<i>31 March 2017</i>
Profit for the period	51,385	43,014
<i>Items that will not be reclassified to interim condensed consolidated statement of income in subsequent periods:</i>		
Revaluation losses on equity instruments at fair value through other comprehensive income	(4,499)	-
<i>Items that are or may be reclassified subsequently to interim condensed consolidated statement of income:</i>		
Financial instruments at fair value through other comprehensive income:		
Net change in fair value during the period	(11,434)	-
Recycled to interim condensed consolidated statement of income	595	-
Net loss on financial instruments at fair value through other comprehensive income	(10,839)	-
Financial assets available for sale:		
Net change in fair value	-	10,081
Net transfer to interim condensed consolidated statement of income	-	(5,521)
	-	4,560
Share of other comprehensive (loss) income from associates and joint ventures	(1,103)	238
Exchange differences on translation of foreign operations	(21,658)	(11,199)
Other comprehensive loss for the period	(38,099)	(6,401)
Total comprehensive income	13,286	36,613
Attributable to:		
Shareholders of the Bank	12,336	35,861
Non-controlling interests	950	752
	13,286	36,613

The attached notes 1 to 16 form part of the interim condensed consolidated financial information.

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

As at 31 March 2018

		<i>KD 000's</i>		
		<i>(Audited)</i>		
	<i>Notes</i>	<i>31 March 2018</i>	<i>31 December 2017</i>	<i>31 March 2017</i>
ASSETS				
Cash and balances with banks and financial institutions	9	1,230,624	1,262,456	1,351,898
Short-term murabaha		3,006,342	2,925,329	2,751,098
Financing receivables		9,497,347	9,216,475	8,461,277
Investment in Sukuk		1,394,635	1,428,655	1,214,214
Trading properties		159,069	161,137	172,945
Investments		305,850	304,293	346,472
Investment in associates and joint ventures		484,184	463,797	467,512
Investment properties		536,977	554,321	592,473
Other assets		487,073	464,558	501,965
Intangible assets and goodwill		38,115	38,659	40,024
Property and equipment		214,125	214,001	211,646
Assets classified as held for sale	7	16,557	324,300	333,071
TOTAL ASSETS		17,370,898	17,357,981	16,444,595
LIABILITIES				
Due to banks and financial institutions		2,295,865	2,239,923	2,195,335
Sukuk payables		507,598	518,078	462,034
Depositors' accounts		11,764,009	11,596,733	10,978,459
Other liabilities		821,555	699,236	666,425
Liabilities directly associated with the assets classified as held for sale	7	2,230	187,889	163,358
TOTAL LIABILITIES		15,391,257	15,241,859	14,465,611
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE BANK				
Share capital	10	634,226	576,569	576,569
Share premium		720,333	720,333	720,333
Proposed issue of bonus shares	10	-	57,657	-
Treasury shares		(44,921)	(45,063)	(46,489)
Reserves	8	468,621	466,101	500,789
		1,778,259	1,775,597	1,751,202
Proposed cash dividends	10	-	96,645	-
TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE BANK		1,778,259	1,872,242	1,751,202
Non-controlling interests		201,382	243,880	227,782
TOTAL EQUITY		1,979,641	2,116,122	1,978,984
TOTAL LIABILITIES AND EQUITY		17,370,898	17,357,981	16,444,595

HAMAD ABDUL MOHSEN AL-MARZOUQ
(CHAIRMAN)

MAZIN SAAD AL-NAHEDH
(GROUP CHIEF EXECUTIVE OFFICER)

The attached notes 1 to 16 form part of the interim condensed consolidated financial information.

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the period ended 31 March 2018

	<i>Attributable to shareholders of the Bank</i>								<i>Non-controlling interests</i>	<i>Total equity</i>
	<i>Share capital</i>	<i>Share premium</i>	<i>Proposed issue of bonus shares</i>	<i>Treasury shares</i>	<i>Reserves (Note 8)</i>	<i>Subtotal</i>	<i>Proposed cash dividends</i>	<i>Subtotal</i>		
Balance at 1 January 2018	576,569	720,333	57,657	(45,063)	466,101	1,775,597	96,645	1,872,242	243,880	2,116,122
Transition adjustment on adoption of IFRS 9 at 1 January 2018 (Note 3)	-	-	-	-	3,092	3,092	-	3,092	(226)	2,866
Restated balance at 1 January 2018	576,569	720,333	57,657	(45,063)	469,193	1,778,689	96,645	1,875,334	243,654	2,118,988
Profit for the period	-	-	-	-	43,965	43,965	-	43,965	7,420	51,385
Other comprehensive loss	-	-	-	-	(31,629)	(31,629)	-	(31,629)	(6,470)	(38,099)
Total comprehensive income	-	-	-	-	12,336	12,336	-	12,336	950	13,286
Zakat	-	-	-	-	(12,578)	(12,578)	-	(12,578)	-	(12,578)
Issue of bonus shares (Note 10)	57,657	-	(57,657)	-	-	-	-	-	-	-
Cash dividends (Note 10)	-	-	-	-	-	-	(96,645)	(96,645)	-	(96,645)
Net movement in treasury shares	-	-	-	142	11	153	-	153	-	153
Deconsolidation of a subsidiary (Note 7)	-	-	-	-	(341)	(341)	-	(341)	(43,972)	(44,313)
Net other changes in non- controlling interests	-	-	-	-	-	-	-	-	750	750
Balance at 31 March 2018	634,226	720,333	-	(44,921)	468,621	1,778,259	-	1,778,259	201,382	1,979,641

The attached notes 1 to 16 form part of the interim condensed consolidated financial information.

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

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

For the period ended 31 March 2018

	<i>Attributable to shareholders of the Bank</i>								<i>Non-controlling interests</i>	<i>Total equity</i>
	<i>Share capital</i>	<i>Share premium</i>	<i>Proposed issue of bonus shares</i>	<i>Treasury shares</i>	<i>Reserves (Note 8)</i>	<i>Subtotal</i>	<i>Proposed cash dividend</i>	<i>Subtotal</i>		
At 1 January 2017	524,154	720,333	52,415	(48,824)	474,652	1,722,730	87,755	1,810,485	228,340	2,038,825
Profit for the period	-	-	-	-	38,588	38,588	-	38,588	4,426	43,014
Other comprehensive loss	-	-	-	-	(2,727)	(2,727)	-	(2,727)	(3,674)	(6,401)
Total comprehensive income	-	-	-	-	35,861	35,861	-	35,861	752	36,613
Zakat	-	-	-	-	(9,682)	(9,682)	-	(9,682)	-	(9,682)
Issue of bonus shares (Note 10)	52,415	-	(52,415)	-	-	-	-	-	-	-
Cash dividends (Note 10)	-	-	-	-	-	-	(87,755)	(87,755)	-	(87,755)
Net movement on treasury shares	-	-	-	2,335	(42)	2,293	-	2,293	-	2,293
Disposal of a subsidiary	-	-	-	-	-	-	-	-	(1,434)	(1,434)
Net other changes in non- controlling interests	-	-	-	-	-	-	-	-	124	124
At 31 March 2017	<u>576,569</u>	<u>720,333</u>	<u>-</u>	<u>(46,489)</u>	<u>500,789</u>	<u>1,751,202</u>	<u>-</u>	<u>1,751,202</u>	<u>227,782</u>	<u>1,978,984</u>

The attached notes 1 to 16 form part of the interim condensed consolidated financial information.

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(UNAUDITED)

For the period ended 31 March 2018

		<i>KD 000's</i>	
		<i>Three months ended</i>	
	<i>Notes</i>	<i>31 March 2018</i>	<i>31 March 2017</i>
OPERATING ACTIVITIES			
Profit for the period before taxation		58,426	51,281
Adjustments to reconcile profit to net cash flows:			
Depreciation and amortization		7,914	8,232
Provisions and impairment		47,572	43,380
Gain on sale of investments		3,634	(14,407)
Dividends income		(1,184)	(2,587)
Share of results of associates and joint ventures		(6,862)	775
Gain on sale of trading and investment properties		(1,132)	(265)
Other investment income		(1,747)	(6,701)
		106,621	79,708
Changes in operating assets and liabilities			
<i>(Increase) decrease in operating assets:</i>			
Financing receivables		(341,641)	(345,702)
Trading properties		2,068	5,013
Other assets		(33,130)	101,848
Statutory deposit with Central Banks		118,701	24,339
<i>Increase (decrease) in operating liabilities:</i>			
Due to banks and financial institutions		45,462	(214,219)
Depositors' accounts		167,276	252,246
Other liabilities		33,802	(12,804)
Net cash flows from (used in) operating activities		99,159	(109,571)
INVESTING ACTIVITIES			
Investments, net		19,465	(112,304)
Purchase of investment properties		(718)	(4,754)
Proceeds from sale of investment properties		748	1,628
Purchase of property and equipment		(9,400)	(12,992)
Proceeds from sale of property and equipment		1,937	5,520
Intangible assets, net		(1,524)	(1,765)
Leasehold rights, net		(1)	(505)
Proceeds from sale of subsidiaries		-	5,600
Proceeds from sale of investment in associates and joint ventures		801	613
Dividend received		9,499	7,401
Net cash flows from (used in) investing activities		20,807	(111,558)
FINANCING ACTIVITIES			
Cash dividends paid	10	-	(87,755)
Net movement in treasury shares		153	2,293
Net cash flows from (used in) financing activities		153	(85,462)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		120,119	(306,591)
Cash and cash equivalents at 1 January		1,366,890	2,092,111
CASH AND CASH EQUIVALENTS AT 31 MARCH	9	1,487,009	1,785,520

The attached notes 1 to 16 form part of the interim condensed consolidated financial information.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
INFORMATION (UNAUDITED)

31 March 2018

1 INCORPORATION AND REGISTRATION

The interim condensed consolidated financial information of Kuwait Finance House K.S.C.P. (“the Bank”) and subsidiaries (collectively “the Group”) for the three months period ended 31 March 2018 were authorised for issue by the Bank’s Board of Directors on 9 April 2018.

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

The Bank is a public shareholding company incorporated in Kuwait on 23 March 1977 and is registered as an Islamic bank with the Central Bank of Kuwait. It is engaged in all Islamic banking activities for its own account as well as for third parties, including financing, purchase and sale of investments, leasing, project construction and other trading activities without practising usury. The Bank’s registered head office is at Abdulla Al-Mubarak Street, Murqab, Kuwait.

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

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

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

The interim condensed consolidated financial information does not contain all information and disclosures required for full financial statements prepared in accordance with IFRS, and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2017. The Group has adopted IFRS 9: Financial Instruments, effective 1 January 2018, except for the requirement of Expected Credit Losses (“ECL”) on financing facilities, which have been replaced by the CBK’s requirement for credit losses. The Bank has also adopted IFRS 15: Revenue from Contracts with Customers from 1 January 2018. The accounting policies for these new standards are disclosed in Note 3. Significant judgments and estimates relating to impairment are disclosed in Note 3 considering IFRS 9 first time adoption.

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

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

3 IMPACT OF CHANGES IN ACCOUNTING POLICIES DUE TO ADOPTION OF NEW STANDARDS

The key changes to the Group’s accounting policies resulting from its adoption of IFRS 9 and IFRS 15 are summarised below:

IFRS 15 Revenue from Contracts with Customers

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

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

31 March 2018

3 IMPACT OF CHANGES IN ACCOUNTING POLICIES DUE TO ADOPTION OF NEW STANDARDS (continued)

IFRS 9 – Financial Instruments

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

Classification of financial assets and financial liabilities

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

Business model assessment

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

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

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

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

The SPPY test

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

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

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

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

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

3 IMPACT OF CHANGES IN ACCOUNTING POLICIES DUE TO ADOPTION OF NEW STANDARDS (continued)

IFRS 9 – Financial Instruments (continued)

3.1 Measurement categories of financial assets and liabilities

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

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

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

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

3.1.1 Debt instruments at amortised cost

Classification

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

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

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

Subsequent measurement

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

3.1.2 Debt instruments at FVOCI

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

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

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

31 March 2018

3 IMPACT OF CHANGES IN ACCOUNTING POLICIES DUE TO ADOPTION OF NEW STANDARDS (continued)

IFRS 9 – Financial Instruments (continued)

3.1 Measurement categories of financial assets and liabilities (continued)

3.1.3 Equity instruments at FVOCI

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

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

3.1.4 Financial asset at FVPL

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

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

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

3.2 Impairment of financial assets

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

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

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

Stage 1: 12 months ECL

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

Stage 2: Lifetime ECL – not credit impaired

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

31 March 2018

3 IMPACT OF CHANGES IN ACCOUNTING POLICIES DUE TO ADOPTION OF NEW STANDARDS (continued)

IFRS 9 – Financial Instruments (continued)

3.2 Impairment of financial assets (continued)

Stage 3: Lifetime ECL – credit impaired

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

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

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

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

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

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

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

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

Incorporation of forward looking information

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

31 March 2018

3 IMPACT OF CHANGES IN ACCOUNTING POLICIES DUE TO ADOPTION OF NEW STANDARDS (continued)**IFRS 9 – Financial Instruments (continued)****Hedge accounting**

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

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

3.3 Transition

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

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

Impact of Adopting IFRS 9

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

	<i>KD 000's</i>	
	<i>Retained earnings</i>	<i>Fair value reserve</i>
Closing balance under IAS 39 (31 December 2017)	88,716	19,151
<i>Impact on reclassification and re-measurements:</i>		
Investment securities (debt and equity) from available-for-sale to FVPL	15,883	(15,883)
Investment securities (equity) from available-for-sale to FVOCI	-	4,393
<i>Impact on recognition of Expected Credit Losses on financial assets other than financing receivable and short term murabaha:</i>		
Expected credit losses under IFRS 9 for debt financial assets at FVOCI	(1,301)	-
Opening balance under IFRS 9 on date of initial application of 1 January 2018	<u>103,298</u>	<u>7,661</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

31 March 2018

3 IMPACT OF CHANGES IN ACCOUNTING POLICIES DUE TO ADOPTION OF NEW STANDARDS (continued)**IFRS 9 – Financial Instruments (continued)****3.3 Transition (continued)****3.3.1 Classification of financial assets on the date of initial application of IFRS 9**

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

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

Impairment allowances

The following table reconciles the closing impairment allowance for financial assets other than financing receivables and short term murabaha, in accordance with IAS 39 as at 31 December 2017 to the opening ECL allowance determined in accordance with IFRS 9 as at 1 January 2018.

	<i>KD 000's</i>			
	<i>31 December 2017</i>	<i>Re-classification</i>	<i>Re-measurements</i>	<i>1 January 2018</i>
Investment in Sukuk classified as available-for-sale under IAS 39/debt financial assets at FVOCI under IFRS 9	1,308	-	1,527	2,835

The following notes relate to the IFRS9 disclosures for the period ended 31 March 2018.

ECL and staging of financial instruments**Credit loss expense**

The table below shows the ECL charge on financial instruments for the period ended 31 March 2018 recorded in the interim condensed consolidated statement of income:

	<i>KD 000's</i>			
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Sukuk measured at FVOCI	113	-	-	113

Movement of ECL

	<i>KD 000's</i>				
	<i>Stage 1 12-month ECL</i>	<i>Stage 2 Lifetime ECL</i>	<i>Stage 3 Lifetime ECL</i>	<i>Purchased credit impaired</i>	<i>Total</i>
At 1 January 2018	1,527	-	1,308	-	2,835
Net re-measurements	113	-	-	-	113
At 31 March 2018	1,640	-	1,308	-	2,948

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

31 March 2018

3 IMPACT OF CHANGES IN ACCOUNTING POLICIES DUE TO ADOPTION OF NEW STANDARDS (continued)**3.3 Transition (continued)****3.3.1 Classification of financial assets on the date of initial application of IFRS 9 (continued)****Credit risk profile**

The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognized.

	<i>KD 000's</i>				
	<i>Stage 1 12-month ECL</i>	<i>Stage 2 Lifetime ECL</i>	<i>Stage 3 Lifetime ECL</i>	<i>Purchased credit impaired</i>	<i>Total</i>
Investments in Sukuk					
High Grade	1,149,889	-	-	-	1,149,889
Standard Grade	246,386	-	-	-	246,386
Past due or impaired	-	-	1,308	-	1,308
Gross carrying amount	1,396,275	-	1,308	-	1,397,583
Loss allowance	(1,640)	-	(1,308)	-	(2,948)
Carrying amount	1,394,635	-	-	-	1,394,635

Movement in gross carrying amount

	<i>KD 000's</i>				
	<i>Stage 1 12-month ECL</i>	<i>Stage 2 Lifetime ECL</i>	<i>Stage 3 Lifetime ECL</i>	<i>Purchased credit impaired</i>	<i>Total</i>
At 1 January 2018	1,418,033	-	1,308	-	1,419,341
Net movement during the period	(21,758)	-	-	-	(21,758)
At 31 March 2018	1,396,275	-	1,308	-	1,397,583

4 FINANCE COST AND ESTIMATED DISTRIBUTION TO DEPOSITORS

The management of the Bank has estimated distribution to depositors and profit attributable to Bank's shareholders based on the results for the three months period ended 31 March 2018. The actual distribution to depositors and profit attributable to Bank's shareholders could be different from the amounts presented in the interim condensed consolidated statement of income.

The actual profit to be distributed to all parties concerned will be determined by the Board of Directors of the Bank in accordance with the Bank's articles of association, based on the annual audited results for the year ending 31 December 2018.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
INFORMATION (UNAUDITED)

31 March 2018

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

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

	<i>Three months ended</i>	
	<i>31 March 2018</i>	<i>31 March 2017</i>
Basic and diluted earnings per share:		
Profit for the period attributable to shareholders of the Bank (thousand KD)	43,965	38,588
Weighted average number of shares outstanding during the period (thousand shares)	6,253,704	6,249,494
Basic and diluted earnings per share attributable to the shareholders of the Bank	7.03 fils	6.17 fils
Basic and diluted earnings per share from continuing operations:		
Profit for the period from continuing operations attributable to shareholders of the Bank (thousand KD)	43,988	39,319
Weighted average number of shares outstanding during the period (thousand shares)	6,253,704	6,249,494
Basic and diluted earnings per share from continuing operation attributable to the shareholders of the Bank	7.03 fils	6.29 fils

The comparative basic and diluted earnings per share have been restated to reflect the impact of bonus shares issued (Note 10).

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

6 TAXATION

	<i>KD 000's</i>	
	<i>Three months ended</i>	
	<i>31 March 2018</i>	<i>31 March 2017</i>
Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)	(418)	(403)
National Labour Support Tax (NLST)	(606)	(878)
Zakat (based on Zakat Law No. 46/2006)	(332)	(397)
Taxation related to subsidiaries	(5,685)	(6,589)
	(7,041)	(8,267)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
INFORMATION (UNAUDITED)

31 March 2018

7 DISCONTINUED OPERATIONS

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

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

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

- (b) During the prior year, the Board of Directors of a subsidiary approved to sell its interest in New Technology Bottling Company K.S.C (Closed) (NTBC), an indirect subsidiary of the Bank. As a result, the interim condensed consolidated statement of financial position of the Bank as at 31 March 2018 presents the assets and liabilities of NTBC amounting to KD 16,557 thousand and KD 2,230 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”.

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

31 March 2018

8 RESERVES

The movement of reserves is analysed as follows:

<i>31 March 2018</i>								
	<i>KD 000's</i>							
	<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 2018	274,841	274,841	88,716	6,736	19,151	(163,822)	(34,362)	466,101
Transition adjustment on adoption of IFRS 9 at 1 January 2018 (Note 3)	-	-	14,582	-	(11,490)	-	-	3,092
Restated balance at 1 January 2018	274,841	274,841	103,298	6,736	7,661	(163,822)	(34,362)	469,193
Profit for the period	-	-	43,965	-	-	-	-	43,965
Other comprehensive loss	-	-	-	-	(16,575)	(15,054)	-	(31,629)
Total comprehensive income (loss)	-	-	43,965	-	(16,575)	(15,054)	-	12,336
Zakat	-	-	(12,578)	-	-	-	-	(12,578)
Deconsolidation of a subsidiary (Note 7)	-	-	(10,938)	-	(2,292)	(341)	13,230	(341)
Net movement in treasury shares	-	-	-	11	-	-	-	11
Balance at 31 March 2018	274,841	274,841	123,747	6,747	(11,206)	(179,217)	(21,132)	468,621
<i>31 March 2017</i>								
	<i>KD 000's</i>							
	<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 2017	255,564	255,564	107,099	6,735	25,728	(141,649)	(34,389)	474,652
Profit for the period	-	-	38,588	-	-	-	-	38,588
Other comprehensive income (loss)	-	-	-	-	3,524	(6,251)	-	(2,727)
Total comprehensive income (loss)	-	-	38,588	-	3,524	(6,251)	-	35,861
Zakat	-	-	(9,682)	-	-	-	-	(9,682)
Net movement in treasury shares	-	-	-	(42)	-	-	-	(42)
Balance at 31 March 2017	255,564	255,564	136,005	6,693	29,252	(147,900)	(34,389)	500,789

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

31 March 2018

9 CASH AND CASH EQUIVALENTS

	<i>KD 000's</i>		
	<i>31 March 2018</i>	<i>(Audited) 31 December 2017</i>	<i>31 March 2017</i>
Cash	188,107	258,590	165,629
Balances with Central Banks	636,935	591,716	726,762
Balances with banks and financial institutions - current accounts	405,582	412,150	459,507
Cash and balances with banks and financial institutions	1,230,624	1,262,456	1,351,898
Short term murabaha maturing within 3 months of contract date	853,786	805,930	948,470
Cash with banks attributable to discontinued operations	-	14,606	25,323
Less: Statutory deposits with Central Banks	(597,401)	(716,102)	(540,171)
Cash and cash equivalents	1,487,009	1,366,890	1,785,520

10 SHARE CAPITAL, ISSUE OF BONUS SHARES AND CASH DIVIDENDS

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

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

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

11 DIRECTORS' FEES

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

12 CONTINGENCIES AND COMMITMENTS

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

	<i>KD 000's</i>		
	<i>31 March 2018</i>	<i>(Audited) 31 December 2017</i>	<i>31 March 2017</i>
Acceptances and letters of credit	227,184	189,520	169,652
Letters of guarantee	1,947,194	1,897,510	1,851,980
Contingencies	2,174,378	2,087,030	2,021,632
Capital commitments	477,673	408,254	450,265

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

31 March 2018

13 RELATED PARTY TRANSACTIONS

Certain related parties (Major shareholders, directors and executive employees, officers of the Group, their families, associated companies joint ventures and companies of which they are the principal owners) are depositors and financing facilities, customers of the Group, in the ordinary course of business. Such transactions were made on substantially the same terms, including profit rates and collateral, as those prevailing at the same time for comparable transactions with unrelated parties and did not involve more than a normal amount of risk.

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

	<i>KD 000's</i>						
	<i>Major shareholders</i>	<i>Associates</i>	<i>Board members and executive officers</i>	<i>Other related parties</i>	<i>(Audited)</i>		<i>Total</i>
					<i>31 March 2018</i>	<i>31 December 2017</i>	
Related parties							
Financing receivables	-	214,388	4,026	10,185	228,599	240,725	109,945
Due to banks and financial institutions	1,267,325	35,980	-	-	1,303,305	1,387,400	1,344,584
Depositors' accounts	-	164,764	9,323	25,167	199,254	88,695	103,304
Contingencies and commitments	486	12,687	1	3,111	16,285	12,473	13,883
Investments managed by related party	-	-	-	33,060	33,060	33,281	33,963

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

	<i>KD 000's</i>						
	<i>Major shareholders</i>	<i>Associates</i>	<i>Board members and executive officers</i>	<i>Other related parties</i>	<i>Three months ended</i>		<i>Total</i>
					<i>31 March 2018</i>	<i>31 March 2017</i>	
Financing income	-	1,624	43	45	1,712		1,219
Fee and commission income	-	7	7	23	37		36
Finance cost and estimated distribution to depositors	6,174	213	20	1,714	8,121		6,375

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

31 March 2018

13 RELATED PARTY TRANSACTIONS (continued)

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

	<i>KD 000's</i>								
	<i>The number of Board Members or Executive Officers</i>			<i>The number of related parties (Relatives of Board Members or Executive Officers)</i>			<i>Values</i>		
	<i>(Audited)</i>			<i>(Audited)</i>			<i>(Audited)</i>		
	<i>31 March 2018</i>	<i>31 December 2017</i>	<i>31 March 2017</i>	<i>31 March 2018</i>	<i>31 December 2017</i>	<i>31 March 2017</i>	<i>31 March 2018</i>	<i>31 December 2017</i>	<i>31 March 2017</i>
Board Members									
Finance facilities	23	26	27	14	13	19	2,500	2,466	2,963
Credit cards	14	16	17	4	4	4	45	52	42
Deposits	62	68	72	98	97	108	19,471	20,345	16,830
Collateral against finance facilities	7	7	6	3	3	5	4,252	3,559	3,201
Executive Officers									
Finance facilities	36	46	46	11	12	12	2,279	2,577	2,669
Credit cards	26	35	41	6	6	4	158	170	121
Deposits	66	79	73	84	84	38	8,525	7,120	8,817
Collateral against finance facilities	11	12	15	4	4	4	5,107	5,515	5,970

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
INFORMATION (UNAUDITED)

31 March 2018

13 RELATED PARTY TRANSACTIONS (continued)

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

	<i>KD 000's</i>	
	<i>Total</i>	
	<i>Three months ended</i>	
	<i>31 March</i>	<i>31 March</i>
	<i>2018</i>	<i>2017</i>
Salaries, allowances and bonuses of key management personnel	5,812	5,874
Termination & long term benefits of key management personnel	234	311
Remuneration of chairman and board members	75	142
	<u>6,121</u>	<u>6,327</u>

14 SEGMENTAL ANALYSIS*Segment information*

	<i>KD 000's</i>				
	<i>Treasury</i>	<i>Retail and private Banking</i>	<i>Corporate Banking</i>	<i>Investment</i>	<i>Total</i>
<i>31 March 2018</i>					
Total assets	<u>4,093,374</u>	<u>5,800,200</u>	<u>5,315,536</u>	<u>2,161,788</u>	<u>17,370,898</u>
Total liabilities	<u>3,248,999</u>	<u>9,217,486</u>	<u>2,271,691</u>	<u>653,081</u>	<u>15,391,257</u>
Operating income	<u>4,888</u>	<u>81,525</u>	<u>67,228</u>	<u>35,473</u>	<u>189,114</u>
Provisions and impairment	<u>(191)</u>	<u>4,230</u>	<u>14,639</u>	<u>28,894</u>	<u>47,572</u>
Profit (loss) for the period	<u>4,268</u>	<u>34,457</u>	<u>34,448</u>	<u>(21,788)</u>	<u>51,385</u>

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

31 March 2018

14 SEGMENTAL ANALYSIS (continued)

Segment information (continued)

					<i>KD 000's</i>
	<i>Treasury</i>	<i>Retail and private Banking</i>	<i>Corporate Banking</i>	<i>Investment</i>	<i>Total</i>
<i>31 March 2017</i>					
Total assets	3,989,807	5,366,843	4,483,038	2,604,907	16,444,595
Total liabilities	2,915,243	8,913,846	1,946,677	689,845	14,465,611
Operating income	6,138	70,315	48,394	43,767	168,614
Provisions and impairment	-	4,964	20,803	17,613	43,380
Profit for the period	3,599	30,036	9,171	208	43,014

15 FAIR VALUES

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

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

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

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

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities as at 31 March 2018:

				<i>KD 000's</i>
Financial assets measured at fair value:	<i>(Level 1)</i>	<i>(Level 2)</i>	<i>(Level 3)</i>	<i>Total</i>
Venture capital at fair value through statement of income	-	39,595	-	39,595
Sukuk - FVOCI	1,139,741	-	254,894	1,394,635
Equity - FVOCI	13,367	-	81,188	94,555
Equity - FVPL	68,509	59,553	43,638	171,700
<i>Derivative financial assets:</i>				
Forward contracts	-	1,330	-	1,330
Profit rate swaps	-	329	-	329
Currency swaps	-	910	-	910
	<u>1,221,617</u>	<u>101,717</u>	<u>379,720</u>	<u>1,703,054</u>
Financial liabilities measured at fair value:	<i>(Level 1)</i>	<i>(Level 2)</i>	<i>(Level 3)</i>	<i>Total</i>
<i>Derivative financial liabilities:</i>				
Forward contracts	-	1,710	-	1,710
Profit rate swaps	-	43	-	43
Currency swaps	-	4,159	-	4,159
Embedded precious metals	-	126	-	126
	<u>-</u>	<u>6,038</u>	<u>-</u>	<u>6,038</u>

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

31 March 2018

15 FAIR VALUES (continued)

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

	<i>KD 000's</i>			
	<i>(Level 1)</i>	<i>(Level 2)</i>	<i>(Level 3)</i>	<i>Total</i>
Financial assets measured at fair value:				
Venture capital at fair value through statement of income	-	39,648	-	39,648
Financial assets available for sale	81,692	57,986	28,465	168,143
Investment in Sukuk	1,132,621	-	296,034	1,428,655
<i>Derivative financial assets:</i>				
Forward contracts	-	1,369	-	1,369
Profit rate swaps	-	114	-	114
Currency swaps	-	817	-	817
	<u>1,214,313</u>	<u>99,934</u>	<u>324,499</u>	<u>1,638,746</u>

	<i>KD 000's</i>			
	<i>(Level 1)</i>	<i>(Level 2)</i>	<i>(Level 3)</i>	<i>Total</i>
Financial liabilities measured at fair value:				
<i>Derivative financial liabilities:</i>				
Forward contracts	-	1,890	-	1,890
Currency swaps	-	10,786	-	10,786
Embedded precious metals	-	121	-	121
	<u>-</u>	<u>12,797</u>	<u>-</u>	<u>12,797</u>

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities as at 31 March 2017:

	<i>KD 000's</i>			
	<i>(Level 1)</i>	<i>(Level 2)</i>	<i>(Level 3)</i>	<i>Total</i>
Financial assets measured at fair value:				
Venture capital at fair value through statement of income	-	58,257	-	58,257
Financial assets available for sale – equity securities	81,738	47,834	28,354	157,926
Investment in Sukuk	862,109	-	352,105	1,214,214
<i>Derivative financial assets:</i>				
Forward contracts	-	1,653	-	1,653
Profit rate swaps	-	268	-	268
Currency swaps	-	961	-	961
	<u>943,847</u>	<u>108,973</u>	<u>380,459</u>	<u>1,433,279</u>

	<i>KD 000's</i>			
	<i>(Level 1)</i>	<i>(Level 2)</i>	<i>(Level 3)</i>	<i>Total</i>
Financial liabilities measured at fair value:				
<i>Derivative financial liabilities:</i>				
Forward contracts	-	1,620	-	1,620
Profit rate swaps	-	21	-	21
Currency swaps	-	16,991	-	16,991
Embedded precious metals	-	74	-	74
	<u>-</u>	<u>18,706</u>	<u>-</u>	<u>18,706</u>

No transfers have been made between the levels of hierarchy.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
INFORMATION (UNAUDITED)

31 March 2018

15 FAIR VALUES (continued)

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

	<i>KD 000's</i>	
	<u>2018</u>	<u>2017</u>
As at 1 January	324,499	357,507
IFRS-9 impact	100,676	-
	<u>425,175</u>	<u>357,507</u>
Re-measurement recognised in other comprehensive income	(3,950)	1,067
(Disposal) Purchases, net	(41,505)	21,885
	<u>379,720</u>	<u>380,459</u>

16 FIDUCIARY ASSETS

The aggregate value of assets held in a trust or fiduciary capacity by the Group at 31 March 2018 amounted to KD 1,238,677 thousand (31 December 2017: KD 1,235,457 thousand and 31 March 2017: KD 1,178,526 thousand).

Fees and commission income include fees of KD 1,408 thousand (31 March 2017: KD 415 thousand) arising from trust and fiduciary activities.