بيت التمويل الكويتي
Kuwait Finance House

Annual Report

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

2018

In the name of Allah the Most Gracious, the Most Merciful.

Ye who Believe! Fear Allah and give up what remains of your demand for usury, if ye are indeed believers (278). If ye do it not, take notice of war from Allah and his Apostle, but if ye turn back, ye shall have your capital sums deal not unjustly and ye shall not be dealt unjustly (279).

Al Baqara (278 - 279) Al-Quran

His Highness
Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah
The Amir of the State of Kuwait

His Highness
Sheikh Nawaf Al-Ahmad Al-Jaber Al-Sabah
The Crown Prince

His Highness
Sheikh Jaber Al-Mubarak Al-Hamad Al-Sabah
The Prime Minister

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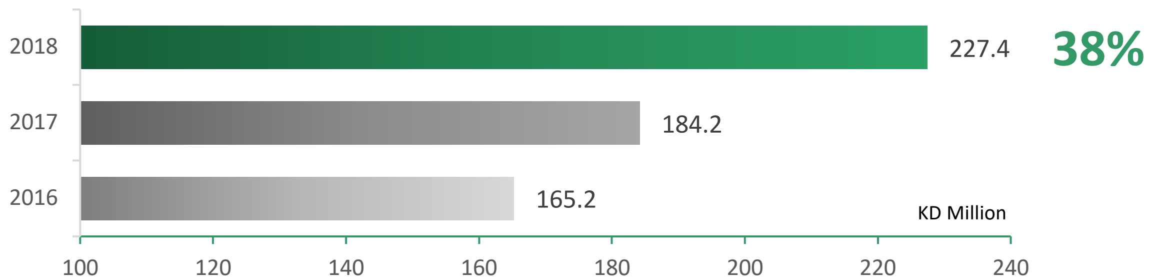

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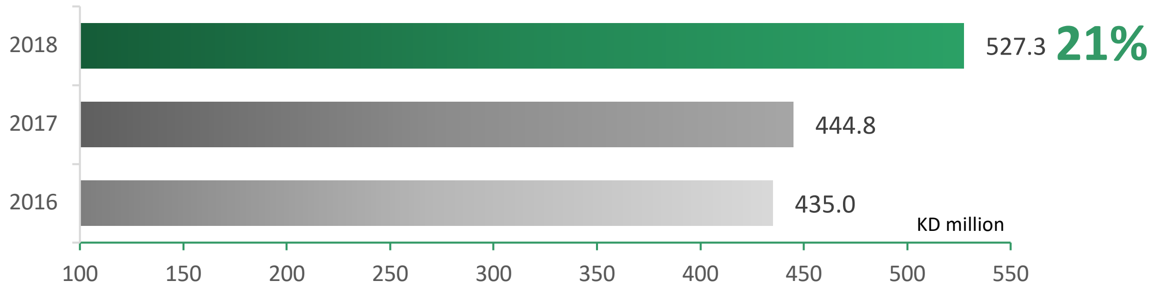

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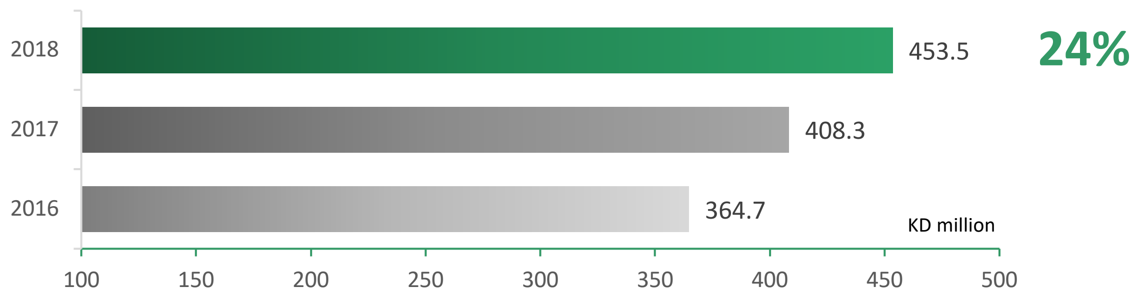

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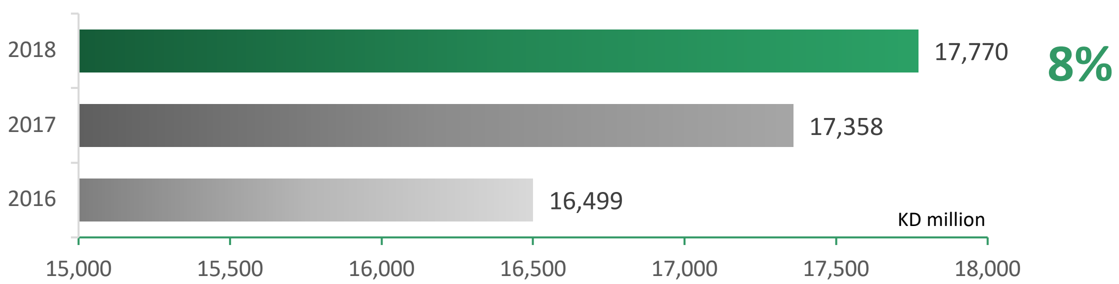

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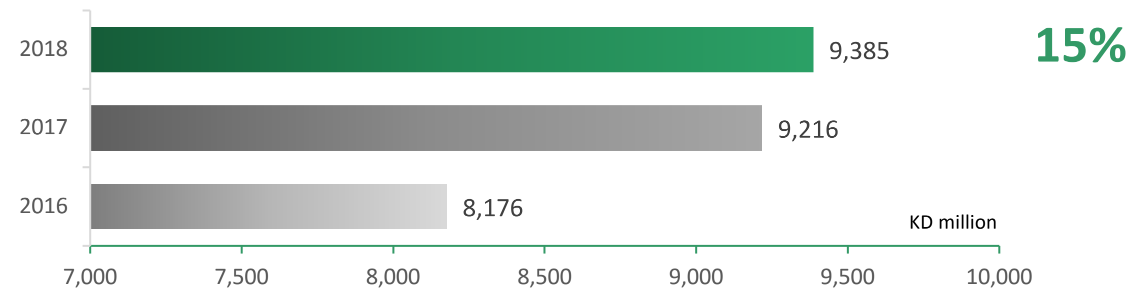

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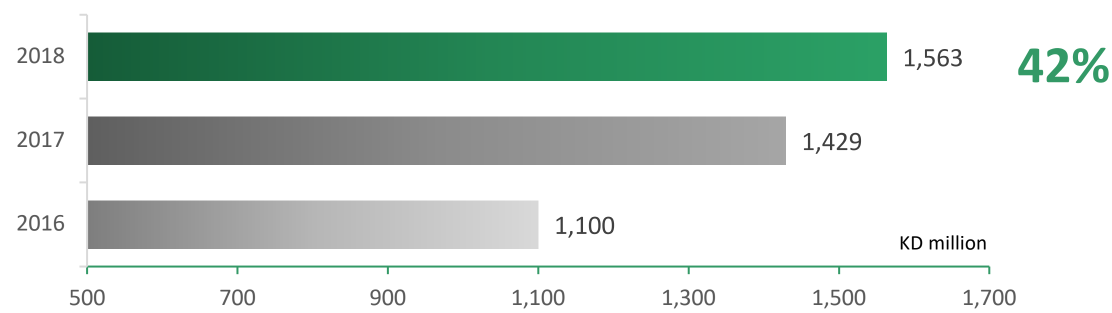

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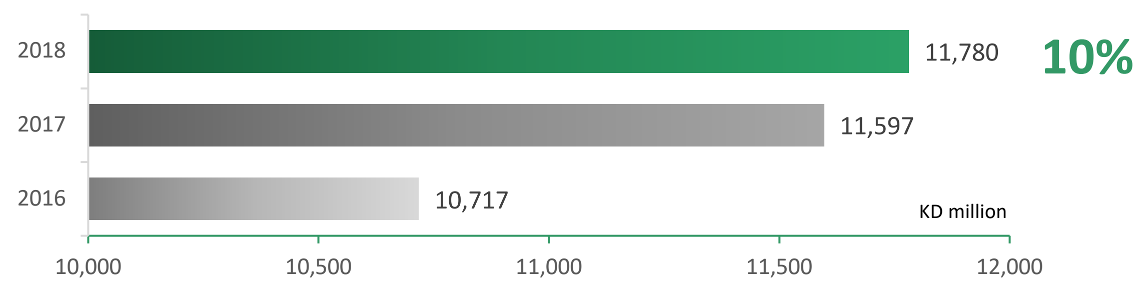

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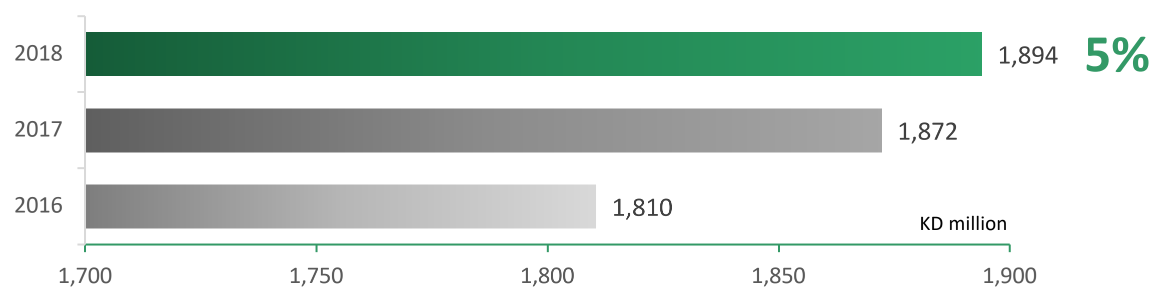


KFH's Group Overview

KFH's Group Overview

Global Integrated Operations

Leading the Islamic finance industry, KFH Group offers a wide range of Islamic products and services across several regions, with 504 branches, 1,263 ATMs and around 15,000 employees during 2018.

• Kuwait Finance House (KFH) was the first Islamic bank in Kuwait established in 1977. Today, KFH is one of the leading Islamic banking institutions in the world, and one of the biggest financiers in both local and regional markets.

• KFH's shareholders include: Kuwait Investment Authority (Direct), Kuwait Awqaf Public Foundation (Direct), Public Authority for Minors' Affairs (Direct), The Public Institution for Social Security (Indirect).

• Kuwait Finance House is a listed public company in the main market and the premier market on Boursa Kuwait (Ticker "KFH").

1- Kuwait Finance House K.S.C.P. - Kuwait
2- Kuwait Finance House B.S.C. - Bahrain
3- Kuwait Turkish Participation Bank - Turkey
4- Kuwait Finance House -Malaysia (Berhad)
5- Saudi Kuwaiti Finance House S.S.C.
6- KT Bank AG - Germany

Vision

To lead the international development of Islamic financial services and become the most trusted and sustainably most profitable Shari'a-compliant bank in the world.

Mission

To deliver superior innovation and customer service excellence while protecting and enhancing the interests of all our stakeholders.

Values

Leadership and Innovation
Partnership and Accountability
Compliance with Islamic Shari'a.

Chairman's Message

Praise be to Allah Almighty, and Peace and Blessings be upon our Prophet Muhammad (PBUH), his Family and Companions.

Esteemed Shareholders,

Assalamu Alaikum Warahmatu Allah Wabarakatuh…

On behalf of myself, my fellow colleagues and members of the Board of Directors of Kuwait Finance House ("KFH" / the "Bank"), I would like to present to you the KFH Group Annual Report for the year 2018.

KFH's performance in 2018 was unique and outstanding. I'm very proud of the remarkable achievements we have made this year. KFH Group's distinguished capabilities and strengths have enabled the Group to be a trustworthy partner in all regions where it operates. These characteristics have placed KFH Group in a leading position in the GCC as the safest financial institution for the year 2018 according to Global Finance Award. This award reflects remarkable customers trust and confidence, KFH Group credibility and acceptance on regional and international levels. It also reflects KFH's highly distinguished trademark in a promising market which offers great opportunities.

We have managed during the year to transform KFH vision and mission into a reality and reap the harvest of implementing the Board approved long term strategy to diversify sources of profit, mitigate risks, optimize cost, increase operating income from core banking activities, divest several non-strategic investments successfully and achieve inter-group harmony in terms of performance to ensure sustainable growth and profitability as affirmed through positive indicators, robust financial position and well-balanced sustainable growth over the last four years which have witnessed highly segnificant positive performance.

In pursuit of expansion and strategic growth opportunities on both regional and international levels to cope with the accelerating developments witnessed in the banking sector worldwide, KFH has focused on considering several opportunities and alternatives to enhance its position regionally and globally.

In continuation of our leading role in global development of Shari'a - compliant financial services, the performance of the first Islamic bank in Germany – KT Bank AG, core pivot to Europe, has been highly impressive as it achieved significant positive results and proved our vision of investment feasibility. KFH has continued its hedging policy to encounter all local and global variables and overcome economic fluctuations efficiently in regions where it operates. It has adopted conservative policies to enhance precautionary provisions and target a robust financial position with a view to focus on core banking activities, high asset quality, adequate capitalization and high level innovation and distinction.

KFH’s strategy relied on three core pillars to achieve its priorities. Pillar 1 targets growth and expansion of the customers base by providing distinguished and unique banking services. Pillar 2 targets transformation of fast developing financial technology, thus availing and implementing new technology to achieve customers’ satisfaction and expectations through embracing of advanced revolutionary digitalization process as part of KFH business transformation program. Transformation to FINTECH application shall grant KFH access to highly advanced electronic banking services as the base of its services for the year 2018 and thereafter. Pillar 3 aimed to achieve highest levels of efficiency and appropriate utilization of operational activities and resources to achieve development and growth in all business lines.

KFH’s transformation journey to electronic banking continued by releasing several initiatives and improvements on electronic banking channels, aiming to provide top notch services to customers including website, electronic banking applications on smart phones, e-corp.online for companies, Artificial Intelligence (AI) technology and advanced robotic technology in certain operations. KFH succeeded in granting its customers access to all banking transactions and availing finance at any time and place.

Our efforts for the year 2018 were crowned with the inauguration of the first fully automated electronic branch, comprising of high tech systems and advanced self-service machines, being the kick-off point to open similar branches in the near future and apply KFH’s ambitious plan. KFH business sectors continue their endeavor to introduce innovative products and services to customers e.g. KFH has released KFH Xpress Service for electronic money transfer to beneficiaries worldwide. On the other hand, KFH endeavors to assimilate the Blockchain technologhy where money transfer services are provided through RippleNet.

Group main financial indicators continued their ascending trend through enhanced profitability. Net shareholders profit exceeded KD 227.4 Million as at the end of 2018 i.e. an increase by 23.5% compared to approximately KD 184.2 Million for the previous year. Earnings per share reached 36.36 Fils i.e. an increase by 23.4% compared to 29.46 Fils for the year 2017.

Total assets reached KD 17.8 Billion i.e. an increase by 2.4%. Our strategy succeeded in achieving cost optimization where total operating expenses ratio reached 39.2% of total operating income, thus continuing its decline for the fourth year respectively. Meanwhile, depositors accounts increased to reach KD 11.8 Billion i.e. an increase by 1.6% compared to 2017.

Return on average shareholders’ equity increased to reach 12.4% in 2018 compared to 10.2% for 2017. Capital Adequacy Ratio reached 17.47% in 2018.

Net financing income reached KD 527.3 Million in 2018 i.e. an increase of 18.5% compared to the preceding year. Total operating income reached KD 746 Million i.e. an increase by 4.6% compared to 2017. Net operating income reached KD 453.5 Million i.e. an increase by 11.1% compared to the last year.

Our well balanced performance comes on the back of the positive inter-connection at the group level, well planned and effective execution of our unified strategy which is characterized by appropriate integration, coordination among all concerned parties whether at Head Office or other various countries where KFH operates e.g. Turkey, Bahrain, Malaysia, Germany and Saudi Arabia. A set of successful strategic initiatives has been applied as core pillars to enhance governance and banking services at the group level.

As we are committed to realize exceptional earnings for shareholders on the long run, the Board of Directors has given its recommendation to the General Assembly to distribute cash dividends of 20% and bonus shares of 10%. The distributed returns on investment deposits and saving accounts are provided in the below table (1).

Table (1) Depositors Profit

Account Type	2018	2017
"Khumasiya" Investment Deposit	3.125%	2.625%
"Mustamera" Investment Deposit	2.625%	2.250%
"Sidra" Investment Deposit	2.100%	1.950%
Dima Investment Deposit (12 months)	2.500%	2.000%
Dima Investment Deposit (6 months)	2.300%	1.875%
Long Term Investment Plans	2.125%	1.930%
Investment Saving Account	1.250%	1.000%

KFH has retained all positive ratings rendered by global credit rating agencies in addition to many other outstanding awards presented by globally recognized institutions. KFH shares have been listed in FTSE Russell Index for emerging markets in Kuwait. These are all positive indicators to the successful implementation of the set plans and the outstanding performance.

The outstanding credit rating given to KFH by global rating agencies reflects KFH's leading and pioneering position. Fitch Rating Agency has affirmed its rating for KFH at A+ Long Term and F1 Short term with a stable outlook. Moody's Rating Agency affirmed KFH rating at A1 Long Term and P-1 Short Term with a stable outlook.

Continuing its track record, and affirming its leading and pioneering position based on several standards set by highly specialized global neutral organizations to reflect its role as the leading Islamic organization in Kuwait and worldwide, KFH has received the Global Finance award of the safest Islamic Financial Institution in GCC for the year 2018. KFH has also won Best Bank for High Net Worth Clients award from Euromoney.

KFH financed major projects in Kuwait. It was a mandated lead arranger for Kuwait Integrated Petroleum Industries Company for KD 390 Million syndicated facility that had a KD 156 Million Islamic tranche, as well as, financing 50% of LIMAK's KD 249.2 Million facility for the construction of Kuwait International Airport's new passenger terminal. Moreover, KFH extended a KD 120 Million facility for MENA Homes Real Estate Company (a Kuwait Projects Company Holding "KIPCO" subsidiary) for the development of Hessah Al-Mubarak District project.

On both regional and international levels, KFH has arranged a syndicated finance transaction for Duqm Refinery amounting US$ 500 Million, bearing in mind that total value of the transaction reached US$ 4.6 Billion. KFH- Turkey has financed the Canakkale Project in Turkey through a KD 72 Million finance transaction, which is part of a total finance transaction provided by several global financial institutions and banks of KD 800 Million.

Group Treasury and Financial Institutions continued to integrate and develop an effective liquidity management process at the group level through diversification and provision of stable finance, development of human resources, implementation of high technology systems and highly developed structures to develop and enhance customer service by providing innovative Shari'a compliant solutions for Group Treasury and Financial Institutions.

Group Treasury expanded its investment activities in Sukuk as KFH investments in the Sukuk market increased during the last two years to exceed KD 1.5 Billion in 2018. While KFH is operating as a market maker for the active Sukuk market to ensure marketing of Sukuk in secondary market, Group Treasury continued to retain its leading role as a supplier of International Islamic Liquidity Management (IILM) Sukuk, thus out-performing regional and international banks.

On the other hand, Group Treasury has sought to innovate new products and add several hedging solutions to protect KFH investments in various regions where it operates by using Shari'a compliant currency exchange transactions and profit Swaps against existing hedging products. Treasury has managed to centralize all Kuwait treasury activities and integrate the same with Group subsidiaries to ensure inflow of foreign currency, optimize costs and execute transactions at competitive rates to ensure development and enhancement of productivity and efficiency.

The year 2018 was a challenging year from a Human Resources perspective where we have continued our efforts in developing and attracting national talent in addition to transforming their academic and professional status in Islamic Banking and Finance. KFH Group committed to meeting required changes in regulations while maintaining efficient staff cost ratios. Nationalization remains a core focus for the KFH Group where we continued attracting and developing seasoned professionals as Bankers of the Future. We have shown exceptional progress in implementing our Human Resources Strategy where we reached a Kuwaitization ratio of 69%, thanks to Kuwaitis making up 97% of our recruitment and our continued focus on building and promoting our talent from within KFH which has lead KFH Kuwait to be an industry leader in terms of Nationalization indicators and Kuwaitization ratios.

To strengthen the relationship between the bank and its' employees, KFH was keen on organizing events and taking advantage of occasions to communicate with all employees and to strengthen relations while maintaining positive interaction on a personal and professional level due to the importance of that in improving the general image of the bank and the performance of its employees. By doing so, KFH Group Entities continued advancing its Group Employee Engagement Scores in 2018 where our Group Employee Engagement Score reached 78% with a growth of 5%. Our continued focus on attracting and retaining our employees lead to recognizing Kuveyt Turk Participation Bank as one of the Top 3 organizations in Turkey in terms of employee engagement.

Development of our Successors and High Potential Employees across the Group has been high on our agenda for this year where we have successfully concluded a series of intensive courses with Harvard Business Publishing, INSEAD, and IMD to build their capabilities as KFH Group Future Leaders.

We have expanded, in 2018, our social participation and contributions activities in local society where KFH has donated KD 11.2 Million to Zakat House based on its belief in the significance of performing Zakat obligation and placing it in Shari'a compliant channels to better serve society and highlight the human side of our business.

We would like to avail this opportunity to convey our sincere thanks and appreciation to all our shareholders and customers for their continuous support. We are confident that we will, by the grace of Allah, achieve rewarding returns for shareholders and depositors. I would also like to avail this opportunity to thank our Group employees and members of the Fatwa & Shari'a Supervisory Board for their continuous endeavor and constructive contributions.

Finally, I would like to convey our sincere thanks, gratitude and appreciation to His Highness the Amir of Kuwait Sheikh Sabah Al-Ahmed Al-Jaber Al-Sabah, may Allah safeguard and protect him, His Highness the Crown Prince Sheikh Nawaf Al-Ahmed Al-Jaber Al-Sabah, may Allah safeguard him, and His Highness Prime Minister Sheikh Jaber Al-Mubarak Al-Sabah, may Allah safeguard him. Our thanks and appreciation are also extended to His Excellency Dr. Mohammed Al-Hashel, Central Bank of Kuwait Governor and all regulatory authorities for their ongoing support to the banking sector in the State of Kuwait.

May Allah Grant us Success

Hamad Abdul Mohsen Al Marzouq

Chairman

Board of Directors

Mr. Hamad Abdul Mohsen Al Marzouq

Chairman since 2014

Mr. Al Marzouq received his Master's Degree in International Finance and Business Management from Claremont Graduate University in the U.S. in 1987. He received his Bachelor's Degree in Industrial Systems Engineering from the University of Southern California in the U.S. in 1985.

Mr. Al Marzouq serves as a Board Member of Kuwait Banking Association (KBA) since 2002 and was appointed as Chairman of the Association from 2010 until 2016. Mr. Al Marzouq served as a Board Member of the Kuwait Institute of Banking Studies (KIBS) from 2003 to 2014 and the Public Authority for Applied Education and Training (PAAET) from 2007 until 2016. Mr. Al Marzouq served as a Member of the Board of Trustees of the Arab Academy for Financial and Banking Sciences from 2004 until 2009 and was a Board Member of the Union of Arab Banks from 2003 until 2010.

Mr. Al Marzouq has a diverse professional experience in Banking and Finance both in Kuwait and abroad spanning more than thirty years as he has held many prominent positions in various banking, financial and regulatory institutions. Mr. Al Marzouq was Chairman and Managing Director of Ahli United Bank - Kuwait from 2002 until 2014, and was Vice Chairman of Ahli United Bank - U.K. from 1998 until 2014 and was Vice Chairman of Ahli United Bank - Egypt from 2006 until 2014. Mr. Al Marzouq served as Vice Chairman of Ahli United Bank – Bahrain from 2000 until 2014 and served as Vice Chairman of Ahli Bank - Oman from 2007 until 2014. Mr. Al Marzouq served as Vice Chairman of the Commercial Bank of Iraq from 2006 until 2014.

Mr. Al Marzouq served as a Board Member, Vice Chairman, and Chairman of Kuwait & Middle East Financial Investment Company in Kuwait from 2002 until 2010. He held the position of Vice Chairman of Middle East Financial Investment Company in the Kingdom of Saudi Arabia from 2009 until 2013 and was Vice Chairman of Ahli Bank in Qatar from 2004 until 2013.

Mr. Al Marzouq previously held several executive positions at the Central Bank of Kuwait including the position of Deputy Manager of the Technical Affairs Office in 1990. In addition, Mr. Al Marzouq served as the Deputy Manager of Financial Control Department from 1992 until 1996 and then served as Manager of Financial Control Department from 1996 until 1998. Mr. Al Marzouq commenced his professional career as an Investment Officer in the U.S. Equity Portfolios and Derivatives at the Investment Department at Kuwait Investment Company from 1987 until 1990.

Mr. Abdul Aziz Yacoub Alnafisi

Vice Chairman since 2014

Chairman of Board Nomination and Remuneration Committee and Member of Board Executive Committee

Mr. Alnafisi received his Bachelor's Degree in Economics from Whittier College in the U.S. in 1977.

Mr. Alnafisi holds the position of General Manager of Abdul Aziz Alnafisi General Trading Company.

Mr. Alnafisi has a wealth of experience in Kuwait and abroad as he has held many prominent leadership positions in companies within Banking, Financial, Real Estate and Telecommunication Sectors.

Mr. Alnafisi was a Board Member in Mobile Telecommunications Company "Zain Group" from 2005 until 2017 where he held the position of Vice Chairman until 2013. In addition, he was a Board Member in Mobile Communication Company - Saudi Arabia "Zain KSA" from 2013. Mr. Alnafisi held many positions in the Board of Directors of Zain Group MENA entities including Zain Iraq, Zain Jordan and Zain Sudan as well as many positions in the Board of Directors of Celtel - Zain Africa.

Mr. Alnafisi was the Chairman of Mada Communication Company from 2001 until 2011 and assumed the position of the Chairman of Al Madar Finance and Investment Company from 1998 until 2004. Mr. Alnafisi was a Board Member of Wethaq Takaful Insurance Company from 2000 until 2004 and was a Board Member of Kuwait Investment Projects Company from 1993 until 1996. In addition, Mr. Alnafisi held the position of the Chairman of KFIC Brokerage Company from 1989 until 1992.

Mr. Alnafisi previously held several executive positions including the position of CEO of Alnafisi National Real Estate Group from 1996 until 2010. In addition, Mr. Alnafisi held the position of Deputy General Manager of Yacoub Alnafisi General Trading and Contracting Establishment from 1984 until 1990, and Managing Director of KFIC Brokerage Company from 1989 until 1990. Mr. Alnafisi commenced his professional career as the Head of Banking Facilities Division at Burgan Bank from 1978 to 1981.

Mr. Fahad Ali AlGhanim

Board Member since 2014

Chairman of Board Investment Committee, Member of Board Executive Committee and Member of Board Audit and Compliance Committee.

Mr. AlGhanim received his Bachelor's Degree in Civil Engineering from Kuwait University in 2002.

Mr. Al Ghanim is the Chairman of Aayan Leasing and Investment Company since 2011. In addition, he is the Vice Chairman of AlAhlia Heavy Vehicles Selling and Import Company since 2011 and Board Member of Kuwait Building Materials Manufacturing Company since 2004. Mr. AlGhanim currently holds the position of CEO at Ali Mohammed Thunayan AlGhanim and Sons Automotive Group of Companies since 2005 and is a Board Member and Treasurer at Kuwait Sports Club since 2007. He is also a member of Kuwait Society of Engineers since 2003.

Mr. AlGhanim has held many prominent leadership positions including the position of the Chairman and CEO of AlAhlia Heavy Vehicles Selling and Import Company from 2005 until 2011 and was the Chairman of the Restructuring Committee at Aayan Leasing and Investment Company from 2010 until 2011. He also held the position of Board Member of the Representatives Board of the World Agents of Mclaren Motors Company (Representatives of the Middle East) from 2010 until 2015.

Mr. AlGhanim assumed Board Member positions in numerous local companies including the International Company for Electronic Payment (UPS) from 2005 until 2010, Al-Oula Slaughter House Company from 2003 until 2005, and was the CEO of Ali AlGhanim and Sons Group of Companies – Contracting Sector from 2002 until 2005.

Mr. Muad Saud Al Osaimi

Board Member since 2014

Member of Board Executive Committee, Member of Board Risk Committee and Member of Board Investment Committee.

Mr. Al Osaimi received his Bachelor's of Science Degree in Finance from George Mason University in the U.S. in 2001.

Mr. Al Osaimi was appointed as the Chairman of KFH Malaysia since February 2017.

He also served as a Board Member of numerous companies including Kuwait Gate Holding Company from 2004 until 2014, Kuwait Financial Center Company from 2008 until 2011 and Al Raya International Holding Company from 2005 until 2009.

Mr. Al Osaimi is the CEO of Faiha International Real Estate Company since 2017. He previously held the position of Deputy General Manager of Global Retail Company since 2003. In addition, Mr. Al-Osaimi worked at the Investment Department of Aayan Leasing and Investment Company in 2002 and completed an 18 months specialized training program for graduates at Kuwait Investment Authority (KIA) in 2001.

Mr. Khaled Salem Al Nisf

Board Member since 2014

Chairman of Board Risk Committee, Member of Board Executive Committee and Member of Board Investment Committee

Mr. Al Nisf received his Bachelor's Degree in Finance from the College of Commerce, Economics and Political Sciences at Kuwait University in 1995. He also pursued specialized courses in Financial Statement Analysis from the Institute of International Research.

Mr. Al Nisf is the Vice Chairman of the Kuwaiti Digital Computer Company since 2016. In addition, Mr. Al Nisf holds the position of Board Member at Al-Shamiya Holding Company since 2016 and is a Board Member at Al Tadamon Al Kuwaitiya Company since 2016.

Mr. Al Nisf held the position of Chairman of the Executive Board specialized in setting strategies and implementation at Al Nisf Group of Companies. Mr. Al Nisf has held the position of CEO at Mohamed Bin Yusuf Al Nisf & Partners Company, Al Tadamon Al Kuwaitiya Company, and Trading and Industrial Equipment Company since 2008.

Mr. Al Nisf previously held several executive positions including the position of Investment and Finance Manager at Al Nisf Companies from 1997 until 2008, and was the Administration Manager of the Company from 1995 until 2007. In addition, Mr. Al Nisf previously held the position of Board Member at the Kuwaiti Digital Computer Company from 2001 until 2016.

Mr. Noorur Rahman Abid

Board Member since 2014

Chairman of Board Audit and Compliance Committee and Member of Board Nomination and Remuneration Committee

Mr. Abid has been a Fellow Chartered Accountant from Institute of Chartered Accountants in England and Wales (ICAEW) since 1976.

Mr. Abid was appointed as a Board Member at KFH Malaysia since 2017. He was appointed as Assurance Leader for Ernst & Young Middle East and North Africa in 1999, and has nearly 40 years of extensive experience within the profession.

In 2012, Mr. Abid received the World Islamic Banking Conference Industry Leadership Award in recognition for his contribution to the Islamic Banking industry.

Mr. Abid previously served as Chairman of the Accounting Standards Committee and Vice Chairman of Accounting and Auditing Standards Board of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). He is currently a member of the Board of Trustees of the AAOIFI.

Mr. Abid serves as a Board Member and member of the Audit Committee at Meezan Bank, one of the largest Islamic Banks in Pakistan. In addition, Mr. Abid is a Board Member at Arcapita Company in the Kingdom of Bahrain and Chairman of its Audit Committee. Mr. Abid is a Board Member at Dr. Soliman Fakeeh Hospital in Jeddah in the Kingdom of Saudi Arabia, Chairman of its Audit Committee, and a member of its Nomination and Remuneration Committee.

Mr. Ra'ed Khaled Al Kharafi

Board Member representing Kuwait Awqaf Public Foundation since 2015

Chairman of Board Governance Committee and Member of Board Risk Committee

Mr. Al Kharafi received his Bachelor's Degree in Commerce (Management) from Cairo in 2007, and Diploma in Management from College of Business Studies at the Public Authority for Applied Education and Training in Kuwait in 1993.

Mr. Al Kharafi is a member of the Fact Finding Committee which reports to the Ministry of Justice in 2015, and a Board Member at Real Estate Asset Management Company (REAM) representing Kuwait Awqaf Public Foundation from 2015 until 2016, and Acting Board Member at Zakat House representing Kuwait Awqaf Public Foundation from 2015 until 2016.

He holds the position of Deputy Secretary General for Developing Resources and Investment at Kuwait Awqaf Public Foundation with a job grade of Assistant Undersecretary since 2015.

Mr. Al Kharafi commenced his professional career at the Kuwait Fund for Arab Economic Development in 1993, and was promoted to Head of Public Relations Division in 1996 and to Deputy Manager of Administrative Affairs from 2000 until 2015.

He is a Member of the Supervising Committee of the Awqaf Properties Investment Fund at the Islamic Development Bank, Jeddah, Kingdom of Saudi Arabia, representing Kuwait Awqaf Public Foundation since 2016.

Mr. Al Kharafi previously held numerous executive positions including the Chairman of the Board of Directors of one of the largest Retail Centers in Kuwait in 2005. Prior to that, he held the position of Treasurer in 2003, and then appointed as Vice Chairman of the Board of Directors in 2004 at the same Retail Center.

Mr. Barrak Ali Alsheatan

Board Member representing the Public Authority for Minor's Affairs (PAMA) since 2015

Member of Board Nomination and Remuneration Committee, Member of Board Governance Committee, and Member of Board Audit and Compliance Committee

Mr. Alsheatan received his Bachelor's Degree in Accounting from Kuwait University in 1990.

Mr. Alsheatan is the General Manager of the Public Authority for Minor's Affairs and Board Member of Zakat House since 2015 and a Member of the Martyr's Office Board of Trustees.

Mr. Alsheatan was Vice Chairman of Real Estate Asset Management Company (REAM) from 2015 until 2016 and Chairman of National Offset Company from 2012 until 2015. Mr. Alsheatan held many prominent leadership positions, such as Board Member at the Central Bank of Kuwait representing the Ministry of Finance, Board Member of Kuwait Investment Company, and Board Member of Kuwait Direct Investment Promotion Authority.

Mr. Alsheatan held numerous executive positions including Assistant Under secretary of General Accounting Affairs at the Ministry of Finance from 2007 until 2015, System & Follow up Controller in 2000, Steering & Organization Department Manager in 2006 at the Ministry of Finance, and Accounting Steering Controller from 1996 until 2000. In addition, he headed the Accounting Steering Division from 1993 until 1996. Mr. Alsheatan commenced his professional career as a researcher at the Accounting Steering Division in 1990 at the Ministry of Finance.

Mr. Motlaq Mubarak Al-Sanei

Board Member representing Kuwait Investment Authority since 2017
Member of Board Executive Committee, Member of Board Risk Committee, and Member of Board Nomination and Remuneration Committee

Mr. Al Sanei received his Bachelor's Degree in Economics from Kuwait University in 1983.

He is currently the Director General of Kuwait Authority for Partnership Projects.

Mr. Al Sanei has a wealth of professional experience in the Economic and Investment field where he has held numerous prominent positions. He served as the Chairman and Board Member for numerous leading companies in Kuwait including the role of Chairman of Kuwait Small Projects Development Company from 2005 until 2011.

Mr. Al Sanei has assumed overseas roles including the role of Chairman of the Tunisian Kuwaiti Bank from 2001 until 2011.

Mr. Al Sanei made efficient and effective contributions to the Board Committees he participated in. He Headed the Privatization Committee of Kuwait Airways Corporation in 2010. In addition, Mr. Al Sanei has a highly distinguished professional experience in the field of Islamic Banking and Capital Markets as he headed the Founding Committee of Warba Bank. In addition, he was a member of the Privatization Committee of Kuwait Stock Exchange in 2011 and the Founding Committee of Media City Company in 2008.

Mr. Al-Sanei was a Board Member in several leading companies in Kuwait including Tri International Consulting Group (TICG) from 2014 until 2016 and Bank of Bahrain and Kuwait from 2011 until 2017. He served as a Board Member in several companies abroad including Arab Investment Company in the Kingdom of Saudi Arabia from 2008 until 2015, Arab Authority for Investment and Agricultural Development in the Republic of Sudan from 2001 until 2008, and the Kuwaiti United Company in the Syrian Arab Republic for one year.

Mr. Al Sanei was a member at Kuwait Economic Society from 2006 until 2014 and Board Member of Kuwait Airways Company during 2011. In addition, he assumed the role of Chairman and General Manager for the Kuwaiti Tunisian Development Group. Mr. Al Sanei served previously as the General Manager of the Kuwaiti Real Estate Investment Group Office in Tunisia until 2000.

Mr. Salah Abdulaziz Al-Muraikhi

Board Member representing Kuwait Investment Authority since 2018
Member of Board Audit and Compliance Committee and Member of Board Investment Committee

Mr. Al-Muraikhi received his Master's Degree in Business Management and Financial Accounting from Claremont Graduate University in the U.S. in 1987. He received his Bachelor's Degree in Finance from the Kuwait University in 1984.

Mr. Al-Muraikhi joined Kuwait Investment Authority in 1996. He then worked in Kuwait Investment Office in London from 2000 until 2005. Mr. Al-Muraikhi currently holds the position of Manager of Hedge Fund Department in Kuwait Investment Authority.

Mr. Al-Muraikhi has a wealth of professional experience in the Economic and Investment field where he held numerous prominent positions. He served as the Chairman of the Board of Farah Al-Maghreb Company (Previously known as Moroccan Kuwaiti Development Group) from 2015 until 2018, Board Member of Kuwait Investment Company from 2012 until 2018, Chairman of the Board for Pakistan Kuwait Investment Company from 2007 until 2012, Board Member of Kuwaiti Egyptian Investment Company from 2007 until 2013, Board Member of Grupo Plastico Company in Spain from 2004 until 2005, Vice Chairman for Kuwait Real Estate Investment Consortium from 1998 until 2000 where he held the position of Managing Director from 1999 until 2000. Mr. Al-Muraikhi served as Board Member of Housing Bank in Amman - Jordon from 1997 until 2001.

The Annual Report of Fatwa and Shari'a Supervisory Board 2018

Kuwait Finance House

To the respected KFH shareholders,

Assalamu alaykum warahmatu Allah wabarakatuh,

Praise be to Allah the Almighty and Peace and Blessings be upon our Prophet Muhammad (PBUH), his family and his companions.

We have reviewed and endorsed the policies, products, services and the activities that KFH had carried out in 2018. We have also conducted the necessary review to provide our opinion on KFH compliance with Shari'a rules and principles through the fatwas, resolutions and recommendations that we have issued.

To achieve this compliance assurance, the Fatwa and Shari'a Supervisory Board held 46 meetings during the year 2018, in which it had reviewed and endorsed samples of the contracts and agreements after obtaining the necessary information to issue its opinion. The Shari'a Research and Advisory Department conducted its review on contracts, agreements and polices and procedures as per Fatwa & Shari'a Supervisory Board's resolutions in addition to the Group Internal Shari'a Audit conducted audit exersises on randomly selected samples of all operations and transactions of KFH with the shareholders, investors and others in accordance with the Annual Shari'a Audit plan for all the Bank's departments and its subsidiaries. The Shari'a Board has also received the periodic reports that the Group Internal Shari'a Audit Department has prepared on the Shari'a audit process and operations, site visits and the compliance status of the process and implementation of the fatwa and resolutions issued by KFH Fatwa and Shari'a Supervisory Board.

We have also obtained all necessary information and clarifications to give us sufficient evidence to provide reasonable confirmation that KFH and its subsidiaries had complied with Shari'a rules and principles in all its operations that have been presented to the Fatwa and Shari'a Supervisory Board.

Through the process and steps that we followed to ascertain the compliance of KFH to the Shari'a rules, we confirm the following:

First: The contracts and transactions which KFH had entered into during the financial year ending on 31 December 2018 as presented to us had complied with the Shari'a rules, principles and resolutions and recommendations of KFH Fatwa and Shari'a Supervisory Board.

Second: The profit distribution and loss bearing on the investment accounts are in compliance with the terms of our approval in accordance with the rules and principles of Shari'a.

Third: All income that has been received from non-Shari'a compliant sources or by means prohibited by Shari'a have been cleansed and channeled to charitable purposes.

Fourth: The Zakat calculation has been made in accordance with the Company Zakat Manual issued by Kuwait Zakat House, and in accordance with the resolutions and recommendations of KFH Fatwa and Shari'a Supervisory Board.

Peace be upon our Prophet Muhammad, his family members and companions and praise be to Allah, the Lord of the Universe.

Sheikh/Dr. Sayyid Mohammad Sayyid Abdul Razaq Al-Tabtabae
Chairman

Sheikh/Dr. Anwar Shuaib Al-Abdulsalam
Shari'a Board Member

Sheikh/Dr. Mubarak Jazza Al-Harbi
Shari'a Board Member

Sheikh/Dr. Esam Abdulrahim Ghareeb
Shari'a Board Member

Sheikh/Dr. Khaled Shujaa' Al-Otaibi
Shari'a Board Member

Fatwa & Shari'a Supervisory Board

Sheikh Dr. Sayyid Mohammad Al-Sayyid Abdul Razzaq Al-Tabtaba'e

Chairman of Fatwa & Shari'a Supervisory Board

Dr. Al-Tabtaba'e received his PhD in 1996, and his Masters in 1993 from the Supreme Jurisdiction Institute at Al-Imam Mohammad Ibn Saud Islamic University in Riyadh, Kingdom of Saudi Arabia. He received his Bachelor's Degree in 1988 in Islamic Jurisprudence from Al-Imam Mohammad Ibn Saud Islamic University in Riyadh, Kingdom of Saudi Arabia.

Dr. Al-Tabtaba'e is currently the Chairman of Fatwa & Shari'a Supervisory Board at Kuwait Finance House since 2014.

During his professional career, he held numerous prominent roles including Chairman of Personal Status Committee in Kuwait, and Member of the Board of Trustees of Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).

Dr. Al-Tabtaba'e was the former Dean of Shari'a and Islamic Studies College at Kuwait University and a Teaching Faculty Member. Dr. Al-Tabtaba'e previously held the position of Chairman of the Supreme Committee for working on applying Islamic Shari'a Law.

Sheikh Dr. Mubarak Jazza Al-Harbi

Member of Fatwa & Shari'a Supervisory Board

Dr. Al-Harbi received his PhD in Comparative Islamic Jurisprudence from Dar Al Ulum Faculty in Cairo University, Egypt in 2002. He received his Master's Degree in Comparative Islamic Jurisprudence from Dar Al Ulum Faculty in Cairo University, Egypt in 1998. Dr. Al-Harbi received his Bachelor's Degree in Shari'a from the Islamic University of Medina, Kingdom of Saudi Arabia in 1992.

Dr. Al-Harbi is currently a member of the Fatwa & Shari'a Supervisory Board at Kuwait Finance House since 2009.

Dr. Al-Harbi is member of the Fatwa and Shari'a Supervisory Board for Kuwait Finance House in Bahrain. He is also a member of the Fatwa Board at the Ministry of Awkaf and Islamic Affairs in Kuwait, and a member of Fatwa & Shari'a Supervisory Boards at various Islamic Financial Institutions and Organizations.

Dr. Al-Harbi was a Former Head of the Comparative Islamic Jurisprudence and Shari'a Policy Department at Shari'a and Islamic Studies College at Kuwait University.

Sheikh Dr. Anwar Shuaib Al-Abdulsalam

Member of Fatwa & Shari'a Supervisory Board

Dr. Al-Abdulsalam received his PhD in Islamic Jurisprudence and Usul Al-Fiqh from Al-Azhar University in Egypt in 1999. He received his Master's Degree in Islamic Jurisprudence and Usul Al-Fiqh from Al-Azhar University in Egypt in 1996. Dr. Al-Abdulsalam received his Bachelor's Degree in Shari'a from Kuwait University in 1989.

Dr. Al-Abdulsalam is currently a member of the Fatwa & Shari'a Supervisory Board at Kuwait Finance House since 2000.

Dr. Al-Abdulsalam is a member of the Fatwa and Shari'a Supervisory Board of Kuveyt Turk Participation Bank and a member of Fatwa & Shari'a Supervisory Boards at various Islamic Financial Institutions and Organizations.

Dr. Al-Abdulsalam was a former Head of Islamic Jurisprudence and Usul Al-Fiqh Department at Shari'a and Islamic Studies College at Kuwait University.

Sheikh Dr. Khaled Shujaa' Al-Otaibi

Member of Fatwa & Shari'a Supervisory Board

Dr. Al-Otaibi received his PhD in Islamic Jurisprudence and Usul Al-Fiqh from the Islamic University of Medina, Kingdom of Saudi Arabia in 2000. He received his Master's Degree in Islamic Jurisprudence and Usul Al-Fiqh from the Islamic University of Medina, Kingdom of Saudi Arabia in 1995. Dr. Al-Otaibi received his Bachelor's Degree in Islamic Jurisprudence and Usul Al-Fiqh from the Islamic University of Medina, Kingdom of Saudi Arabia in 1991.

Dr. Al-Otaibi is currently a member of the Fatwa & Shari'a Supervisory Board at Kuwait Finance House since 2014.

Dr. Al-Otaibi is a Teaching Faculty Member at the Islamic Jurisprudence and Usul Al-Fiqh Department at Shari'a and Islamic Studies College at Kuwait University. He is the Head of the Shari'a Supervisory Board at Kuwait Zakat House and the General Advisor for Kuwait Hajj Delegation and a member of Fatwa & Shari'a Supervisory Boards at various Islamic Financial Institutions and Organizations.

Dr. Al-Otaibi is an Imam and Orator at the Ministry of Awqaf and Islamic Affairs in Kuwait.

Sheikh Dr. Esam Abdulrahim Ghareeb

Member of Fatwa & Shari'a Supervisory Board

Dr. Ghareeb received his PhD in Islamic Jurisprudence and Usul Al-Fiqh from Birmingham University in the U.K. in 2000. He received his Master's Degree in Islamic Jurisprudence and Usul Al-Fiqh from Birmingham University in the U.K. in 1997. Dr. Ghareeb received his Bachelor's Degree in Islamic Jurisprudence and Usul Al-Fiqh from Kuwait University in 1988.

Dr. Ghareeb is currently a member of the Fatwa & Shari'a Supervisory Board at Kuwait Finance House since 2014.

Dr. Ghareeb is a Teaching Faculty Member at the Islamic Jurisprudence and Usul Al-Fiqh Department at Shari'a and Islamic Studies College at Kuwait University.

Dr. Ghareeb previously held the position of Assistant Dean at Shari'a and Islamic Studies College at Kuwait University. Dr. Ghareeb previously held the position of member of the Supreme Committee for working on applying Islamic Shari'a Law.

Global Economy Development

Global Economy growth of around 3.7% for the year 2018 seems to be robust as predicted by IMF, considering the lapse of a decade on the 2008 global financial crisis which had substantial negative impacts on international firms and institutions in the most advanced economies globally,

Growth is anticipated to slow down in the new decade considering the short-term high-risk environment and the uncertainties resulting from the economic impacts of accelerated technology, thus causing huge growth gaps among various geographies globally. In addition, unfavorable geopolitical conditions have developed additional challenges for businesses and institutions.

IMF anticipates variable growth among various countries. While India has achieved the highest growth ratio, followed by China and Emerging markets at a lower growth rate, yet the US growth ratio was lower than these growth ratios. Also, IMF expects slower growth in 2019 in various economies worldwide e.g. China, Europe and USA. However, economic performance seems to be healthier in certain Middle east economies.

The global economy in general will most likely continue to be resilient assuming that the trade war between China and the USA will recede gradually and no additional tariffs will be imposed. Leaving aside such shocks, the prevailing recovery of the global economic drivers will in turn affect the global economic trends positively. Otherwise, pressures resulted from higher global inflation rates, strict regulations and tighter monetary policies will increase, However, lower profit growth can be achieved in light of the impacts of higher costs, as making profits will become a major challenge.

Second: Advanced Economies and Emerging Markets

According to International Monetary Fund estimations, advanced countries have recorded growth by 2.4% in 2018 which is expected to decline to 2.1% in 2019. US growth rate reached 2.9% in 2018 and is expected to decline to 2.5% in 2019. Growth in Eurozone is expected to may decline slightly to reach 1.9% in 2019 compared to 2% in 2018. Meanwhile, growth in UK and Germany are expected to stabilize in 2019 at 1.5% and 1.9% respectively. Growth in Japan is expected to decline to 0.9% in 2019 compared to 1.1% in 2018. Growth in China has recorded high growth rates which are expected to decline to 6.2% in 2019 compared to 6.6% in 2018. India's economy growth remains the highest as it reached 7.3% in 2018 and is expected to improve to reach 7.4% in 2019.

Third: Middle East & GCC

IMF expects growth to stabilize at 4.7% in emerging countries and developing economies for the years 2018 & 2019. Growth is expected to improve in the Middle East and North Africa region (MENA) to reach 2.7% in 2019 compared to 2.4% in 2018.

According to IMF information Turkey's economy is witnessing significant decline in growth compared to the estimated growth of 3.2% in 2018. Growth is expected to reach less than 0.5% in 2019. The decline in Turkish Lira, witnessed during the period from January – August, was one of the main features of this decline where TL lost 40% of its value before recovery since the beginning of Q4 2018.

Fourth: Economic Developments in Kuwait

IMF expects Kuwait economy growth to record 2.3% in 2018 and to improve to reach 4% in 2019. Current account surplus has approximated KD 2.1 Billion as per CBK information in Q3 2018. while it is estimated to double and aproximate US$ 16.8 Billion as per IMF estimations in 2019 compared to US$ 7.1 Billion in 2017 i.e. 5.9% of GDP in 2017 which is expected to reach 11.3% in 2018 and 11% in 2019 according to IMF estimations. Kuwait total investments represent 22.2% of GDP in 2018 and are expected to increase to 22.8% in 2019 according to IMF estimations.

Kuwait oil closing price reached US$ 53.8 per barrel at the end of 2018 according to Reuters, recording an annual decrease of 19.5%. Thus after maintaining its significant ascending trend and earnings recorded during the preceding two years, it started a descending trend since it has recorded the highest closing price of around USD 87 p/b at the beginning of October 2018. Though, oil prices witnessed consecutive increase at noticeable rates during 2018, average price in 2018 recorded USD 71.2 p/p with a growth of 30% compared to the recorded average of USD 54.7 p/b in 2017. However, the increase in oil prices did not affect inflation significantly in Kuwait according to available data on November 2018 where consumer price index stabilized, according to the Central Statistics Bureau information.

According to the information released by the Ministry of Finance and the State's Budget for the financial year 2018/2019 in October, the budget recorded a surplus approximating KD 3.4 Billion compared to a deficit by KD 958 Million till October last year. Government revenues exceeded KD 12.1 Billion till the end of October, thus marking a significant increase by 45% for the same period last year. Oil income represents 94% of total revenues i.e. KD 11.4 Billion compared to KD 766 Million as non-oil revenues increased significantly by 51%.

Kuwait Government succeeded in optimizing its costs significantly this year where total expenses reached KD 7.5 Billion till October i.e. a decline by 11% compared to the same period last year. Meanwhile, the Kuwaiti government's interest is clearly focused on mega projects and infra-structure in the general budget where government allocated KD 3.3 Billion for spending on various investments as per set plan.

CBK discount rate stabilized at 3% as at the end of 2018 since the last increase by 0.25% in Q1 this year. CBK increased discount rate once during the year compared to 5 times by the Federal Reserve where it reached 2.50% in the fifth time as at the end of the year, bearing in mind that this increase did not have any impact on CBK resolutions.

The Central Bank of Kuwait issued recently new amendments organizing consumer and housing finance by banks and investment companies issued in 2004. Considering the general economic indicators and variations in population growth and inflation ratios. Credit facilities provided by local banks approximated KD 36.9 Billion as at the end of 2018 according to CBK data i.e. an increase by 4.3% on annual basis. Credit facilities represent 85% of local banks deposits which has reached KD 43.5 Billion as 2018 statements i.e. an increase by 3.2% on annual basis. Facilities include KD 34.3 Billion as local currency private sector deposits, KD 2.6 Billion as FC deposits, KD 6.6 Billion as government deposits during the same period. Claims on government KD 3.9 Billion as at the end of November 2018 as per CBK information.

Real estate sales reached KD 3.8 Billion in 2018 i.e. a significant increase by more than KD 1.2 Billion or 48% compared to KD 2.5 Billion total sales in 2017. This increase resulted from the remarkable increase in investment sector which has approximated KD 1.7 Billion in 2018 compared to KD 702 Million in 2017. Commercial sector sales increased to reach KD 585 Million i.e. an increase by 63%. Private residence sales increased to reach KD 1.4 Billion during 2018 i.e. a increasing by 3% compared to 2017. This increase did not have any impact on local real estate prices as prices stabilized in certain real estate sectors. However, prices improved slightly in the trade real estate sector by 1% on annual basis.

The year 2018 was a distinguished year for Kuwait Stock Exchange (Boursa Kuwait) as it witnessed a historical event by joining Emerging Markets in the third quarter as the first stage followed by the second stage as at the end of 2018. After which, Boursa Kuwait made several amendments and changes on the trading systems as per regulatory standards. Boursa Kuwait has also been successful in passing the FTSE Emerging Markets Index tests. Trading activities in Boursa Kuwait are conducted on companies listed in three sub- markets, premier, main and auction markets, thus having positive impact on the performance of listed stocks based on most indicators. The listed companies market capitalization has increased to reach KD 28.4 Billion i.e. an increase by 1.6% in 2018 compared to 2017. Primary market capital value reached KD 19.2 Billion i.e. 67.8% of total listed companies. Market capitilization of Banking sector in the "Premier Market" reached KD 13.9 Billion i.e. 72.2% of total premier market and represents 48.9% of total market capitalization as at the end of 2018. At the same time Boursa Kuwait trades exceeded KD 4.1 Billion. Traded shares reached 21.7 Billion shares via 934 thousand deals during the said period.

Group CEO's Message

Exceptional Growth and Bright Future

Since inception, progress for KFH meant providing an alternative through "Shari'a Compliant" banking products and services for customers' financial needs. Today, KFH's growth and advancement stand as a more productive and effective pioneering financial model, providing retail and corporate customer care to achieve the highest prosperity for society. The KFH brand wherever it operates is a symbol of utmost trust. KFH has built this trust through a long journey of successful partnerships with various tiers of customers. We fully believe that the bank's success is conditioned to customers' security and satisfaction.

KFH was keen, over a 40 year journey, to provide the utmost level of care and service to customers and societies. This goal was achieved through gradual and clear regional and strategic growth towards the future. We focused on developing our employees' talents to build responsible and talented future leaders. We have innovated a new financial system based on genuine social values. We comprehend market needs and the actual momentum of the regions where we operate. To achieve gradual sustainable growth and lead our team and customers to further progress, we have provided specially designed services and accounts to fulfill their expectations and achieve a continuous increase in assets, income and managed funds, thus proving our gradual growth with sustainable positive results.

In 2018, KFH redefined several core aspects of growth and progress by endeavoring to achieve exceptional growth involving time management and progress. KFH has considered, during the year, several opportunities to achieve further growth, strength and stability.

Regional power provides a strong, unleashed position to support our local commitment to growth. We have the ability to grow along with various customers' needs and according to their changing styles. KFH's strength has attracted several opportunities for our customers, societies, employees and the region in general. We have ensured sustainable progress and growth through appropriate utilization of resources to achieve a positive and effective change. Our markets in Bahrain, Saudi Arabia, Germany, Malaysia and Turkey embody the concentration of our regional power and provide a vast scheme of services and products, thus enabling customers to have access to several alternatives, resources and services through our widely spread branch network.

KFH has a prosperous future, by the grace of Allah, by achieving sustainable success and availing proper opportunities. As a leading and pioneering bank we invest in our employees, facilities and our ability to provide outstanding retail services which have acquired the full satisfaction of customers including small companies aiming to obtain capital to achieve further progress or provide a service to corporate, trade and industrial sectors to enhance growth or real estate customers who wish to purchase and invest in properties.

Distinct Financial Indicators

KFH recorded a net profit at KD 227.4 Million in 2018 i.e. an increase by 23.5% compared to the preceding year. Furthermore, financial indicators achieved clear improvements and growth over the last four years. Profit for the year resulting from the Group's local activities in Kuwait increased remarkably to reach KD 162 Million in 2018 compared to KD 37 Million in 2014. As KFH Group heads towards a global spread and expansion, seeking better investment opportunities and returns, profit for the year resulting from international operations approximated KD 101 Million in 2018.

Total assets increased to reach KD 17.8 Billion as at the end of 2018. On the Middle East level, assets increased as at the end of 2018 to reach more than KD 12.2 Billion i.e. an increase by 15% compared to its volume 4 years ago, thus representing 69% of total assets in 2018 compared to 62% in 2014. KFH efforts succeeded in giving KFH an effective presence in The Euro Zone and Turkey where assets represent 26% of total assets (2014: 24%). Assets in Europe and Turkey exceeded KD 4.5 Billion as at the end of 2018 with an increase of 10.3% compared to 2014.

Digital Retail Banking Services

In the year 2018, KFH has embraced the digital revolution by adopting innovative solutions using FINTECH, thus contributing to the exceptional growth of KFH. Kuwait banking sector witnessed for the first time in Kuwait the birth of a fully automated comprehensive electronic branch in Ishbiliya area (KFH – GO) which provides 24 hour service via electronic systems and self-service machines, thus eliminating traditional methods where customers await service from employees. Ten similar branches are expected to be opened mid next year. Banking and commercial services shall be enhanced through the internet and mobile phones. XTM and ATM machines shall be increased to accommodate all new innovative technologies, artificial intelligence, active systems and robotics for transactions in addition to our core branches network.

Retail and Private Banking

KFH inaugurated five banking lounges in various branches for Awlawyya customers, "Nukhba" and Ruwaad" as part of the bank's vision to provide banking services based on high global standards. KFH is committed to quality and distinction in developing the appropriate environment to provide services via a modern design and transformation to the modern generation of e-banking to satisfy customers' inspirations and reflect KFH's pioneering global role. Accordingly, KFH could benefit from lower costs and provide better service to customers. Expansion was achieved in the direct sales team to reach 100 employees with an increase in direct sales presence in more than 30 different locations. To increase geographic expansion and serve customers in new areas, new branches were opened in Qairawan Mall and Arabia Mall.

As we celebrated our 40th anniversary with our customers and shareholders, we have redefined several core aspects of our services to cope with their requirements and ensure that our service level remains extraordinary. In four decades of customer service, our reputation grew, rendering us as the prime Islamic banking leader in Kuwait. Our financial expertise has helped our customers to plan their future, and demand increased on products we provide through our business lines. We are committed to focus on being partners with our customers rather than just being a service provider. In order to accommodate the society's banking preferences, we have advanced to a non-cash payment banking technology as there was substantial demand for our digital services.

To ensure that our customers and partners receive all available tools to fulfill their needs in the best possible manner, we have added new services to our line of products including Visa Platinum – Smart Pay and New Visa Signature with variable advantages as part of our customer care scheme. KFH continues to provide and enhance diversified services and products to fulfill customers' inspirations and enhance the bank's global leading position. Our continuing endeavor in this respect has been crowned with KFH winning the Visa Global award of the Fastest Growing Debit Portfolio in Kuwait in 2018. KFH sales of the Visa Global Card increased by 32% during summer 2018 compared to the same period last year i.e. highest growth ratio in 4 years for the Visa card.

KFH focused on developing ATM machines by adding 7 new services, thus providing more comfort and ease for customers and achieving many of their practical requirements and needs around the clock through an advanced set of services including cash withdrawal using QR Codes instead of the ATM card. Customers are able to use their civil ID or mobile No. for withdrawal, updating civil ID information, activating new ATM cards, changing PIN codes and using KFH Xpress instant and swift money transfer in a competitive way to almost any destination worldwide.

Private banking continued its approach to provide outstanding banking services. KFH provided money delivery service for private banking customers 7 days a week throughout the year, thus enhancing customers' satisfaction level. In line with our integration strategy at the Group level, management has continued to facilitate account opening procedures at KFH Turkey, KFH Bahrain and KFH Malaysia through the coordination of account opening process at Kuwait Head Office.

Various Finance Products

The Individual Financing Department focuses on providing finance facilities to retail customers willing to obtain real estate financing e.g. residential, investment, commercial, industrial or handcraft. The department provides various finance products to fulfill retail customers' needs to finance existing or under construction real estate or develop land and supervise the respective completed stages. The department is currently developing several finance projects to be announced soon, thus granting retail customers various opportunities and alternatives to benefit from available finance products at flexible and competitive financial terms and conditions by introducing new real estate financial concepts. This has contributed to the creation of a special imprint and mark for KFH, thus increasing our customer base and KFH market share in real estate finance.

To provide a distinguished service to this segment of customers, the individual financing department has established several portfolios managed by highly qualified and experienced account managers, thus ensuring continuous contact whether directly through field visits or SMS.

On the other hand, KFH opened, during the year, the largest automotive showroom in the Middle East to provide commercial services and automotive finance services. Meanwhile finance services provided at the automotive agent premises covered more showrooms, increasing from 54 to 58. Car rental and lease to own services are also offered at most of the automotive agent showrooms.

Corporate Finance

Over the last 40 years, credit and investment services were a significant part of KFH's overall success. We made a modest start enhanced by the will to assist our customers to achieve present success and future planning. Today, we have a department supervising assets exceeding KD 5 Billion in value.

Executive Management

KFH participated in major finance transactions for various sectors including oil and petrochemicals sectors. Also, it has participated in financing many other major projects in other vital sectors including infrastructure and construction projects. KFH plays a major role in supporting the national economy, financing mega projects, enhancement of the execution of Kuwait's development plan and vision. Transactions include a KD 124.6 Million finance transaction to LIMAK company to complete the new terminal project. Furthermore, it has signed a Euro 200 Million finance transaction for the construction of Canakkale flying bridge in Turkey, signed a memorandum of cooperation with KIPCO Company to finance the customers of Hissa Al-Mubarak District real estate project in addition to a KD 120 Million finance transaction in favor of MENA Homes Co.

Treasury and Financial Institutions

KFH Group continued its leading role as a trust worthy organizer of sovereign and private Sukuk worldwide. KFH Capital, in cooperation with Group Treasury, has acted in 2018 as the joint lead arranger for the main issuances of Sukuk in the region. Major issuances include Oman Sukuk worth US$ 1.5 Billion, Dubai Islamic Bank Sukuk worth US$ 1 Billion and First Abu-Dhabi Bank's first Sukuk approximating US$ 650 Million. Furthermore, International Islamic Liquidity Management (IILM) has placed KFH as the of top rank dealer in the main dealers list which comprises several international and regional banks, thus affirming KFH position as the core player in the short term Sukuk market.

Group Treasury continues to apply innovative technology to execute automated transactions and settlements in partnership with Bloomberg for capital market activities. Group Financial Institutions Department has developed new credit lines for highly rated banks for better distribution of risk while maintaining a cautious balance and diversification to achieve the highest returns on available liquidity. The department succeeded, in cooperation with several local and regional banks, to arrange mega finance transactions e.g. US$ 250 Million syndicated finance transaction in favor of Kuwait International Bank. Also, It has participated in several finance transactions in cooperation with International Islamic Trade Finance Corporation including the finance of government oil supplies to member countries.

Operations and Information Technology

KFH continued its transformation process to e-banking after upgrading its infrastructure. Transactions processed through e-channels reached more than 65% of total transactions. Electronic transactions reach around 4 million transactions monthly. Considering the cooperation between the Operations Department and the Information Technology Department at KFH, to transform to a new automated system for settlement of customer claims on ATM systems, we have succeeded in launching a centralized SWIFT correspondence network for international payments at the Group level. On the other hand, KFH has joined the Digital Payments Network (Ripple), thus improving business efficiency, optimizing cost, focusing on technical expertise and investing in strategic initiatives to provide the best customer service. In pursuit of the most advanced technology systems to provide a high-tech customer service, KFH has invented, for the first time in Kuwait, a specialized charity deductions system to establish charity deductions without the need to fill in the charity deduction application form.

Human Resources

Group Human Resources made significant leaps during this year where KFH Human Capital capabilities have been further transformed leading to a more engaged, enabled, and vibrant workforce.

During this year, we continued building momentum and further strengthening our employment brand across our Group. We have constantly attracted talented individuals across the Group where National Talent made up 99% of our recruitment this year (97% in KFH Kuwait). Our talent retention ratios remain favorable when compared with our peers thanks to the effective practices we have built into our Talent Acquisition domain.

Group Human Resources persists with the execution of many initiatives across the Group where the standardization of best practices across the Group remains a core focus. We have continued rolling out Oracle HR in our Group Entities where previous roll-out exercises have reaped benefits through oversight and control over our Human Capital.

In KFH Kuwait, we increased the pool of leaders for the future by 45 new individuals. Identified High Potential Employees (HiPos) were then enrolled in rigorous focused programs led by first-class providers including Harvard Business Publishing to further refine the skills and capabilities of our HiPos. The year 2018 program for Successors included a major investment on a Group Level where leaders were enrolled in specialized programs developed in liaison with three of the top Business Schools in the world: Harvard Business School, INSEAD, and IMD.

KFH Kuwait continues to be amongst the leaders in Kuwaitization Ratio amongst its peers with a ratio of 69%. We also ensured effective career progression of our Kuwaiti Nationals as part of our Middle Management, and we have internally promoted eighteen Kuwaiti Branch Managers from within KFH, while Kuwaiti Nationals now make up more than 60% of the Executive Leadership Team thanks to constant emphasis on internal progression.

This year was a significant year for the Employee Survey, our largest initiative covering more than 10,000 employees across our Group. Participation rate maintained a record high of more than 85% which shows our employees commitment to providing their inputs where the relevant initiatives and actions taken resulted in a significant change in KFH Group. KFH Group sustained its upward trajectory for the third year in a row with the Employee Engagement score reaching 78%, thus continuing its industry leadership in this indicator.

Furthermore, Group HR applied industry leading methods on how to recognize Key Talent with over twenty recognition opportunities all aimed at improving our overall contribution thus resulting in enhanced engagement and commitment. KFH continued supporting its employees this year through providing scholarships to talented Kuwaiti individuals to obtain both Graduate and Undergraduate Degrees where we congratulated the third batch of employees on their graduation. Group HR continues to make significant progress in attracting and growing talent which will result in more development and growth, leading to further performance improvement by the grace of Allah across KFH Group.

Risk and Compliance

Group risk, Compliance and Internal Audit departments have provided remarkable and significant support in the assessment of the efficiency of the bank risk management process at the Group level. KFH continues to adhere to CBK and Capital Markets Authority regulatory instructions in regard to internal control and governance by applying several initiatives including the 3 year risk strategic review plan. Group Internal Audit Department applies international internal audit standards issued by the International Institute of Internal Auditors. On the other hand, our Legal Department has developed its services and allocated an office at KFH Head Office for the Ministry of Justice employees of the Real estate Registration and Authentication Department to provide services to KFH customers without the need to refer to the Ministry head office. Shari'a Department witnessed qualitative development including recruitment of new staff and implementation of an ambitious plan to develop its employees. Shari'a department employees received international professional certificates in Shari'a audit.

Shari'a department plays a significant role in applying Fatwa and Shari'a Supervisory Board (FSSB) decisions to all KFH sectors. The department has prepared a follow up plan for KFH subsidiaries to ensure compliance with Shari'a regulations and related FSSB decisions, develop regulatory follow up reports to Shari'a Committee and concerned authorities and ensure safety of the subsidiaries activities Shari'a wise. Several initiatives have been launched aiming to spread Shari'a knowledge and awareness and enhance moral values and principles among employees, customers and related parties.

Awards and Recognitions

Continuing the remarkable record and affirming KFH's position as a leading and pioneering bank in accordance with global standards, thus reflecting its position as the leading Islamic Bank in Kuwait and worldwide, KFH won the "The Safest Islamic Financial Institutions In the GCC 2018" award by Global Finance. KFH also won Best Bank for High Net Worth Clients award from Euromoney.

In this context, we have received continuous global confirmation ratings for capital and assets quality. Today, we are able to achieve future satisfaction of our customers and shareholders by increasing our employees experience through training and guidance. We made strong foundations to meet all customer and society's future needs.

KFH & Society

KFH continues to enhance its leading CSR position through a set of various social initiatives and contributions, comprising of more than 200 initiatives in 2018. Such initiatives highlighted the bank's keenness to execute its diversified and comprehensive social responsibility. Initiatives have aimed to cover various fields through business plans and programs carried out by the bank to cover education, health, awareness, environment, special needs, youth, sports and voluntary works. Also, they include social Takaful to enhance the concept of efficiency in achieving comprehensive social growth.

Youth represent the main priority of KFH strategy. For better achievement of this strategy KFH has concluded an agreement of cooperation with the Ministry of State for Youth Affairs to provide an integrated system of youth care and support of the owners of minor projects, students' graduation projects and scientific researches.

KFH was keen on reaching various society tiers by enhancing its presence in all global social events and initiatives launched by international organizations through social media channels, and various social service activities. To affirm this significant role, KFH has participated in several global and regional conferences e.g. meetings of IMF and International Bank of Indonesia, "Invest in Kuwait" conference held at Silicon Valley – USA, "Islamic finance: Global Thesis" held by the Central Bank of Kuwait and Islamic Finance Services Council, Islamic Banks Conference – 3rd Global Forum of General Council of Islamic Banks and Financial Institutions, Annual conferences in Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), Private Sector Social Responsibility Conference to support human rights in cooperation with the Ministry of Foreign Affairs and Human Rights Commission. KFH has also participated in conferences held by students unions on both local and international levels.

On the other hand, KFH continued its endeavor to spread and uphold banking and finance culture, disclose financial indicators through the Live Webcast Analyst Conference to all interested parties and investors worldwide, issue economic and real estate publications and expand internet and social media posts in cooperation with Thomson Reuters, thus increasing numbers of followers on the Group social media accounts. Our Legal Department has taken all legal procedures to protect intellectual rights of KFH publications in regard to Real-estate Reports.

Our success is mainly attributed to our employees endeavors and the valuable trust which our customers and shareholders have bestowed upon us. We would like to convey our sincere thanks and appreciation to KFH Board Members and the Shari'a Board for their distinguished efforts to enhance KFH credibility. We shall always seek to execute our plan in a systematic and orderly fashion and achieve more success for our reputable organization.

Mazin Saad Al-Nahedh
Group Chief Executive Officer

Financial Performance and Major Financial Indicators 2018

23.5% Increase in Net Profit for Shareholders

Net profit for shareholders increased to reach KD 227.4 million at the end of 2018 i.e. an increase by 23.5 % compared to KD 184.2 Million in 2017. Accordingly, earnings per share reached 36.36 Fils as at the end of 2018 compared to 29.46 Fils as at the end of 2017 i.e. an increase by 23.4%.

4.6% Increase in Total Operating Income

KFH Group total operating income increased to reach KD 746 million for the year 2018 i.e. an increase by 4.6% compared to 2017. This increase resulted from the increase in the group core activities' income, mainly financing income which increased to reach KD 862.1 million i.e. an increase by 16.4% compared to 2017. Financing cost and distribution to depositors reached KD 334.8 million. Accordingly, net financing income reached KD 527.3 million i.e. an increase by 18.5%. Net finance income represented 71% of total operating income in 2018 compared to 62% in 2017.

4.1% Decline in Total Operational Expenses

Management continued its efforts to optimize costs at the group level. Operational expenses declined to reach KD 292.5 million as at the end of 2018 i.e. a decline by 4.1% compared to 2017 as a result of the decline in the group expenses in several fields including staff costs by 5.3%, thus reaching KD 177.6 in 2018. Due to continued development and improvement, general and administrative expenses declined by 1.6% to reach KD 81.5 million. Depreciation expenses declined by 3.7%.

11.1% Increase in Net Operational Income

Net operational income increased to reach KD 453.5 million as at the end of 2018 i.e. an increase by 11.1% compared to 2017.

3.6% Decline in Total Operational Expenses/ Total Operational Income

Total operational expenses/ total operational income ratio continues to improve for the fourth year respectively. It declined to 39.2% for the year 2018 compared to 42.8% for 2017, which was more than 51% as at the end of 2014.

2.4% Growth in Group Assets

KFH Group Assets increased in 2018 to reach KD 17.8 billion i.e. an increase by 2.4% or KD 412.3 million compared to 2017.

1.8% Growth in Financing Receivables

Financing receivables increased to reach KD 9.4 billion i.e. an increase by 1.8% compared to 2017. Financing receivables represent 53% of total assets.

Increase in short term Murabaha by 11% to exceed KD 3.2 billion which represent 18.3% of total assets.

9.4% Growth in Islamic Sukkuk

Increase in group investments in Islamic Sukuk by 9.4% which reached KD 1.6 billion, it represents 8.8% of the group's total assets as at the end of 2018.

1.6% Growth in Depositors' Accounts

KFH Group efforts has resulted into acquiring more customers, thus increasing deposits balances to reach KD 11.8 billion as at the end of 2018 i.e. an increase by 1.6%.

1.2 % Growth in Shareholders' Equity

Shareholders' equity increased to reach KD 1.9 billion i.e. an increase by 1.2% compared to last year.

Rate of Return on Average Assets, Average Shareholders' Equity and Capital Adequacy Ratio

The Rate of Return on Average Assets increased to reach 1.5% as at the end of 2018 compared to 1.3% during last year. Rate of Return on Average Shareholders' Equity approximated 12.4% compared to 10.2% last year.

Capital adequacy ratio reached 17.47% as at the end of 2018, which is higher than the ratio determined by CBK.

Proposed Dividends to Shareholders

The Bank's Board of Directors proposed the distribution of cash dividends to shareholders by 20% for the year ended 31st December 2018 (17% in 2017) and issue bonus shares by 10% (2017:10%) of issued and paid up capital. Subject to the ordinary general assembly approval and finalization of official and legal procedures.

Proposed directors' remuneration reached KD 942 thousand for the year ended 31 December 2018 (KD 878 thousand in 2017) which is considered within the limit permissible as per local regulations and subject to ordinary general assembly approval.

Summary of Significant Financial Results

Amounts in KD Million

	2018	2017	2016
Net profit attributable to shareholders of the bank	227.4	184.2	165.2
Earnings per share – Fils	36.36	29.46	26.45
Total financing income	862.1	740.5	717.9
Net finance income	527.3	444.8	434.9
Net operating income	453.5	408.3	364.7
Total assets	17,770	17,358	16,499
Financing receivables	9,385	9,216	8,176
Investment in Sukuk	1,563	1,429	1,100
Depositors' accounts	11,780	11,597	10,717
Equity attributable to the shareholders of the bank	1,894	1,872	1,810

Executive Management

Mr. Mazin Saad Alnahedh

Group Chief Executive Officer

Mr. Alnahedh received his Bachelor's of Science Degree in Business Administration in Finance from California State University - Sacramento in the U.S. in 1993. He completed numerous specialized Executive Programs including the General Management Program (GMP) at Harvard Business School in the U.S.

Mr. Alnahedh is currently the Group Chief Executive Officer at Kuwait Finance House since 2014. In addition, Mr. Alnahedh is the Chairman of KFH Capital Investment Company and Board Member of Kuveyt Turk Participation Bank.

Mr. Alnahedh possesses a vast banking experience, spanning more than 25 years. During his professional career, he held numerous prominent leadership roles at the National Bank of Kuwait including his role as a member of the Executive Management Committee from 2010 until 2014, General Manager Consumer Banking Group from 2011 until 2014, General Manager Corporate Banking Group from 2008 until 2011, and General Manager Treasury Group in 2008. In addition, he was promoted to various leadership positions within the Treasury Group from 1993 until 2008.

Mr. Shadi Ahmad Zahran

Group Chief Financial Officer

Mr. Zahran received his Master of Business Administration (MBA) Degree in Finance from the University of Manchester in the U.K. in 2014. He received his Bachelor's of Science Degree in Accounting from the University of Jordan in 1992.

Mr. Zahran is a member of the Board of Trustees of the Accounting and Auditing Organization for Islamic Financial Institution (AAOIFI) and a Board Member of the General Council for Islamic Banks and Financial Institutions (CIBAFI). Mr. Zahran holds several specialized professional certificates including Certified Public Accountant (CPA) from the state of Illinois in the U.S. since 1996, an Auditing License from the Council of the Auditing Profession in Jordon since 1996, Certified Bank Auditor (CBA) from Bank Administration Institute (BAI) since 1999, and Certified Islamic Professional Accountant (CIPA) from the Accounting and Auditing Organization for Islamic Financial Institutions since 2006.

Mr. Zahran is currently the Group Chief Financial Officer at Kuwait Finance House since 2014. In addition, Mr. Zahran is the Vice Chairman of KFH Capital Investment Company and Board Member at Kuwait Finance House - Bahrain.

Mr. Zahran previously held several executive positions at Ahli United Bank Group including General Manager - Finance in Kuwait from 2009 until 2014 and Head of Group Financial Controlling at Ahli United Bank in Bahrain from 2005 until 2009.

Mr. Zahran previously held the position of Head of Financial Systems Management & Operations Department at Al Rajhi Bank in the Kingdom of Saudi Arabia from 2000 until 2005. In addition, Mr. Zahran previously worked as an External Auditor at the international external audit firm Ernst & Young.

Mr. Fahad Khaled Al-Mukhaizeem

Group Chief Strategy Officer

Mr. Al-Mukhaizeem received his Master of Business Administration (MBA) and Master's Degree in Economics from Boston University in the U.S. in 2000. He received his Bachelor's of Science Degree in Engineering and Bachelor's Degree in Economics from Tufts University in the U.S. in 1996. Mr. Al-Mukhaizeem successfully completed many training programs in addition to the Leadership Development Program at Harvard Business School in 2008.

Mr. Al-Mukhaizeem is currently the Group Chief Strategy Officer at Kuwait Finance House since 2015. In addition, Mr. Al-Mukhaizeem is the Chairman of International Turnkey Systems Group (ITS).

Mr. Al-Mukhaizeem possesses a vast banking experience, spanning more than 17 years. During his professional career, he held numerous prominent leadership roles at Kuwait Finance House including Group General Manager - Strategy & Corporate Affairs from 2013 until 2015. Mr. Al-Mukhaizeem previously held several executive positions within Retail Banking and other Areas at Kuwait Finance House.

Mr. Al-Mukhaizeem successfully supervised the execution of several initiatives concerning the bank's business development in addition to being an effective member in several Restructuring Programs at KFH during his career in addition to establishing many Departments within different areas at KFH.

Mr. Waleed Khaled Mandani

Group Chief Retail and Private Banking Officer

Mr. Mandani received his Bachelor's of Science Degree in Business Administration from the University of Arizona in the U.S. in 1992. Mr. Mandani successfully completed a specialized training course in Decision Making Strategies at Harvard Business School in 2015 and an Executive Program in Project Management & Leadership from Cornell University in the U.S. in 2011.

Mr. Mandani is currently the Group Chief Retail and Private Banking Officer at Kuwait Finance House since 2017. In addition, Mr. Mandani is the Vice Chairman of TurkCapital Holding and Board Member of KFH Capital Investment Company.

Mr. Mandani possesses a vast investment and banking experience, spanning more than 26 years. During his professional career, he held numerous prominent leadership roles including Group General Manager Private Banking at Kuwait Finance House from 2015 until 2016 and Director of Wealth Management at BNP Paribas in Kuwait from 2005 until 2014 where he has represented the bank at Kuwait Banking Association. In addition, Mr. Mandani served as Senior Manager - Private Banking at Ahli United Bank Kuwait from 2001 until 2005.

Mr. Ahmed Soud AlKharji

Group Chief Corporate Banking Officer

Mr. AlKharji received his Master of Business Administration (MBA) Degree in Finance from University of San Diego in the U.S. in 1998. He received his Bachelor's of Science Degree in Finance and Banking from Kuwait University in 1994. Mr. AlKharji successfully completed the Management Program at Harvard Business School.

Mr. AlKharji is currently the Group Chief Corporate Banking Officer at Kuwait Finance House since 2016. In addition, Mr. AlKharji is a Board Member of Kuveyt Turk Participation Bank, Board Member of Kuwait Finance House - Malaysia, and Board Member of KFH Capital Investment Company.

Mr. AlKharji previously held the position of CEO and Managing Director at Kuwait Finance House - Malaysia from 2015 until 2016 and held the position of Deputy General Manager Structured Finance at Kuwait Finance House from 2014 until 2016.

Mr. Abdulwahab Issa Al-Rushood

Group Chief Treasury Officer

Mr. Al-Rushood received his Bachelor's Degree in Mathematics and Computer Science from Western Oregon State College in the U.S in 1987. Mr. Al-Rushood successfully completed a specialized training course on Strategic Leadership at Harvard Business School.

Mr. Al-Rushood is currently the Group Chief Treasury Officer at Kuwait Finance House since 2015. In addition, Mr. Al-Rushood is a Board Member at Kuwait Finance House - Bahrain and a Board Member of Aviation Lease & Finance Company (ALAFCO). Mr. Al-Rushood represents Kuwait Finance House at the General Council for Islamic Banks and Financial Institutions (CIBAFI) in Bahrain and serves as a member of the Advisory Board.

Mr. Al-Rushood possesses a vast banking experience, spanning more than 29 years. During his professional career, he held numerous prominent leadership roles at Kuwait Finance House including General Manager - Kuwait Treasury from 2013 until 2015. In addition, he was promoted to various leadership positions within the Treasury Department from 2002 until 2013.

Mr. Al-Rushood served as Board Member for numerous leading companies including Kuwait Finance House - Malaysia from 2007 until 2013, Liquidity Management House (KFH Investment Company) from 2008 until 2013, Development Enterprises Holding Company (DEH) from 2014 until 2016 and Liquidity Management Centre - Bahrain (LMC) from 2006 until 2016.

Mr. Srood Ahmed Sherif

Group Chief Information Officer

Mr. Sherif received his Bachelor's of Science Degree in Physics from Al-Mustansiriyah University in Iraq in 1975.

Mr. Sherif is currently the Group Chief Information Officer at Kuwait Finance House since 2014. In addition, Mr. Sherif is the Vice Chairman of International Turnkey Systems Group (ITS).

Mr. Sherif previously held several executive positions including Chief Information Officer at the National Bank of Kuwait from 2013 until 2014 and Group Chief Information Officer at National Bank of Abu Dhabi until 2013.

Mr. Sherif possesses specialized experience in the Information Technology field at Financial Institutions, specifically in mapping the business objectives to the Information Technology strategies. In addition, Mr. Sherif has experience in Systems Architecture, Applications Design & Development and Programme Management in addition to possessing a unique background in managing large Data Centers and managing major Information Technology projects.

Mr. Frederick Jacobus Carstens

Group Chief Human Resources Officer

Mr. Carstens received his Master's Degree in Commerce from the University of Johannesburg in South Africa in 2006. He received his Honors Degree in Industrial Psychology from the University of the Orange Free State in South Africa in 1991 and his Bachelor's Degree in Personnel Management from the University of the Orange Free State in South Africa in 1990.

Mr. Carstens is currently the Group Chief Human Resources Officer at Kuwait Finance House since 2016.

Mr. Carstens brings with him over 27 years of Human Resources experience, more than 18 years of Banking experience and he has been working in the region since 2006 where he previously held several executive positions including Deputy Head of Human Resources at Commercial Bank of Dubai from 2014 until 2016 and Assistant General Manager of Human Resources Group at National Bank of Kuwait from 2008 until 2014.

Mr. Carstens has extensive management experience in all aspects of Human Resources and is adept at driving change and transformation in the organizations that he is employed in.

Mr. Abdullah Mohammed Abu Alhous

Group Chief Operations Officer

Mr. Abu Alhous received his Bachelor's Degree in Business Administration in Finance and Banking from Kuwait University in 1987. He attended numerous specialized Executive Programs including the Senior Executive Leadership Program at Harvard Business School in the U.S. in 2018 in addition to attending numerous professional courses and executive programs from world's most reputable business schools like London Business School, INSEAD and Wharton.

Mr. Abu Alhous is currently the Group Chief Operations Officer at Kuwait Finance House since 2015. In addition, Mr. Abu Alhous is a Board Member of International Turnkey Systems Group (ITS).

Mr. Abu Alhous previously held several executive positions including Group General Manager Operations at Kuwait Finance House from 2012 until 2015, Chief Operations Officer at Warba Bank from 2011 until 2012 and Deputy General Manager of Operation Group at the National Bank of Kuwait from 2005 until 2011.

Mr. Gehad Mohamed El-Bendary

Group Chief Risk Officer

Mr. El-Bendary received his Finance & Risk Management Diploma from the University of Wales in the U.K. in 2014. He received his Bachelor's of Commerce Degree in Accounting from Tanta University in Egypt in 1996.

Mr. El-Bendary has successfully completed specialized training programs in Enterprise Leadership from INSEAD, Network Leadership Program from IMD, and Advanced Risk Management from Wharton Business School. Mr. El-Bendary holds numerous specialized professional certificates including the International Certificate in Banking Risk and Regulation (ICBRR) from the Global Association of Risk Professionals (GARP) in 2009.

Mr. El-Bendary is currently the Group Chief Risk Officer at Kuwait Finance House since 2018. Mr. El-Bendary has over 19 years' experience in Risk Management, Auditing and Internal Control Systems in Financial Institutions.

Mr. El-Bendary previously held several executive positions at Kuwait Finance House including the position of General Manager Risk Management from 2016 until 2018, Deputy General Manager - Portfolio & Enterprise Risk Management from 2013 until 2016, Head of Enterprise Risk Management Unit from 2012 until 2013, and Head of Risk Unit from 2007 until 2012.

Mr. El-Bendary oversaw the implementation of several initiatives including the development of a robust Enterprise Wide Risk Management Program for KFH Group by establishing a framework, reviewing policies, designing a governance structure which ensures an independent oversight for assessing if respective functions are adhering to defined Board approved strategy, Risk Policies, Risk Standards including Risk Appetite in addition to overseeing the implementation of the regulators' instructions including Basel I, II and III.

Mr. Wissam Sami El-Kari

Group Chief Internal Auditor

Mr. El-Kari received his Master of Applied Finance Degree from the University of Melbourne in Australia in 2002. He received his Bachelor's Degree in Business Administration from the American University of Beirut, Lebanon in 1996.

Mr. El-Kari holds many specialized professional certificates including Financial Risk Manager (FRM) from the U.S. in 2012, Certified Fraud Examiner (CFE) from the U.S. in 2008, Certified Internal Auditor (CIA) from the U.S. in 2001, and Certified Management Accountant (CMA) from the U.S. in 2001.

Mr. El-Kari is currently the Group Chief Internal Auditor at Kuwait Finance House since 2017.

Mr. El-Kari possesses a vast experience, spanning more than 19 years and a solid experience in assessing Internal Controls, Risk Management, and Governance Processes. During his professional career, he held numerous prominent leadership roles where he has been Heading the Group Internal Audit Department at Kuwait Finance House since 2012. In addition, Mr. El-Kari served as Assistant General Manager Internal Audit, Banking Operations at Burgan Bank in Kuwait from 2005 until 2012.

Dr. Khaled Mohammed AL-Jumah

Group General Manager Legal

Dr. AL-Jumah received his PhD in International Economic Law from the University of Wales in the U.K. in 1997. He received his Master's Degree in Law from the University of Edinburgh in the U.K. in 1993. Dr. AL-Jumah received his Bachelor's Degree in Law from Kuwait University in 1988.

Dr. AL-Jumah is currently the Group General Manager Legal at Kuwait Finance House since 2015.

Dr. AL-Jumah previously held several consultant positions including Legal Consultant at the Central Bank of Kuwait in 2012 and the Legal Consultant at the Office of Secretary General of the Organization of Arab Petroleum Exporting Countries "OAPEC" in 1999. In addition, Dr. AL-Jumah previously worked in the legal field at the Legal Consultancy Group Office in 1998. Prior to that, Dr. AL-Jumah held the position of Chief Legal Consultant at Kuwait Oil Company from 1988 until 1998.

Mr. Fadi Elias Chalouhi

Group General Manager Retail Banking

Mr. Chalouhi received his Master of Business Administration (MBA) Degree from the American University of Beirut, Lebanon in 1999. He received his Bachelor's Degree in Computer & Communications Engineering from the American University of Beirut, Lebanon in 1994. He completed numerous specialized training programs including Global Banking Program on Fintech, Digital and Analytics by Columbia Business School and Business Innovation and Application on Blockchain Technologies by MIT Sloan.

Mr. Chalouhi is currently the Group General Manager Retail Banking at Kuwait Finance House since 2016. In addition, Mr. Chalouhi is a Board Member of The Shared Electronic Banking Services Company (K-NET).

A well-renowned and seasoned banking professional with over 16 years' experience, underpinned by a strong academic background and a solid experience in Treasury, Derivatives, Asset Management and Retail Banking.

Mr. Chalouhi previously held several executive positions at the National Bank of Kuwait including Deputy General Manager Consumer Banking Group - Kuwait from 2015 until 2016, Assistant General Manager Consumer Banking Group - Kuwait from 2011 until 2015, and Executive Manager in the Treasury Group from 2008 until 2011.

Mr. Abdulla Abdulmohsen Al-Mejhem

General Manager Private Banking

Mr. Al-Mejhem received his Master of Business Administration (MBA) with a concentration in Finance and Financial Institutions from Kuwait University in 2006. He received his Bachelor's Degree in Accounting from Kuwait University in 2001.

Mr. Al-Mejhem successfully completed a specialized training course in Decision Making Strategies and Strategic Leadership at Harvard Business School, Senior Executive Program at London Business School and has attended numerous professional courses and executive programs in Ethics and Leadership. Mr. Al-Mejhem holds a Chartered Accountant Designation and is a member of the Kuwaiti Association of Accountants and Auditors since 2001.

Mr. Al-Mejhem is currently General Manager Private Banking at Kuwait Finance House since 2017.

Mr. Al-Mejhem held numerous prominent leadership roles at Kuwait Finance House including Deputy General Manager Private Banking from 2015 until 2016, Executive Manager - Investment Advisory from 2013 until 2015 and Executive Manager - Market and Liquidity Risk Management in 2013.

Mr. Al-Mejhem previously held positions in the Financial Consultancy and Assurance field including Deloitte & Touche from 2009 until 2012.

Mr. Al-Mejhem completed a 2 year specialized training program for graduates at Kuwait Investment Authority (KIA) where he joined Kuwait Investment Office in London and Goldman Sachs London.

Mr. Khaled Yousif Al-Shamlan

General Manager Corporate Banking Kuwait

Mr. Al-Shamlan received his Bachelor's degree in Economics from Kuwait University in 1995.

Mr. Al-Shamlan successfully completed a specialized training course on Managing Strategically and Leading for Results conducted by Harvard Business School and attended numerous professional courses in Leadership, Financial Analysis and Risk Management.

Mr. Al-Shamlan is currently General Manager Corporate Banking Kuwait at Kuwait Finance House since 2018.

Mr. Al-Shamlan possesses a vast banking experience, spanning more than 20 years. During his professional career, he held numerous prominent leadership roles at Kuwait Finance House including Deputy General Manager Individual Financing from 2016 until 2017, Deputy General Manager Corporate Real Estate Financing from 2015 until 2016, Executive Manager Corporate Real Estate Financing in 2014 and Executive Manager Credit Analysis in 2013.

Mr. Al-Shamlan completed a 2 years specialized training program for graduates at Kuwait Investment Authority (KIA).

Mr. Ahmad Eissa Al-Sumait

General Manager Treasury Kuwait

Mr. Al-Sumait received his Bachelor's Degree in Political Science from Kuwait University in 1999. Mr. Al-Sumait it successfully completed a specialized training course on Decision Making Strategies at Harvard Business School.

Mr. Al-Sumait is currently General Manager Treasury Kuwait at Kuwait Finance House since 2017. In addition, Mr. Al-Sumait is the Chairman of the Energy House Holding Company and Vice Chairman of Kuwait Financial Markets Association.

Mr. Al-Sumait possesses a vast banking experience, spanning more than 18 years. During his professional career, he held numerous prominent leadership roles at Kuwait Finance House including Executive Manager Money Market and Senior Manager Money Market. In addition, he was promoted to various leadership positions within the Treasury Department from 2006 until 2015.

Mr. Al-Sumait served as Board Member of Liquidity Management House from 2012 until 2013.

Corporate Governance Report

Governance Report

Introduction:

KFH has established the governance as the corner stone for conducting its banking activities. This comes as part of the continuous development process of governance which KFH conducts.

KFH Board of Directors has exploited all potentials to review and develop work policies and procedures applied to ensure full abidance by Central Bank of Kuwait instructions on governance. KFH fully meets its corporate governance obligations and implements all mandatory requirements. KFH implements all governance rules and regulations at Kuwaiti Banks issued in 2012 and Sharia governance instructions at Kuwaiti Islamic banks issued on 2016.

KFH Board of Directors is always keen on spreading governance awareness at all administrative levels. KFH Board seeks to go beyond regulatory authorities instructions in order to fulfill governance requirements through the implementation of the best global practices on governance.

The board governance committee oversees governance process, provides necessary consultancy services and assist the Board of Directors in fulfilling its regulatory obligations relating to appropriate governance practices by providing a set of guidelines on corporate governance and playing a leading role in drawing up governance policies.

Governance Committee has played a leading role in 2018 and exerted all efforts to ensure KFH abidance by CBK instructions on Sharia Governance at Islamic Banks.

KFH conducts a regular review on governance updates and the standards issued by global organizations on governance. It also conducts a periodical review on governance applications to assess their efficiency against all challenges encountered by the bank and to protect the interests and rights of shareholders and stake holders and ensure that all information reaches on time with great transparency and neutralism in implementation of KFH approved disclosure policy.

KFH ensures that all subsidiaries implement the group's approved corporate governance policy in addition to the instructions imposed by other regulatory authorities inside and outside Kuwait. All subsidiaries are subject to auditing and periodical review to improve governance performance at the group level.

The Corporate Governance Manual of KFH and its subsidiaries has been prepared and published on KFH's website. Generally speaking, KFH has always taken the lead in implementing all various aspects of governance rules and regulations. KFH ensures to abide by all new standards and regulations. KFH continues its operations to develop governance systems and mechanisms at the group level in accordance with the best global practices on governance.

Ownership Shares: as 31/12/2018

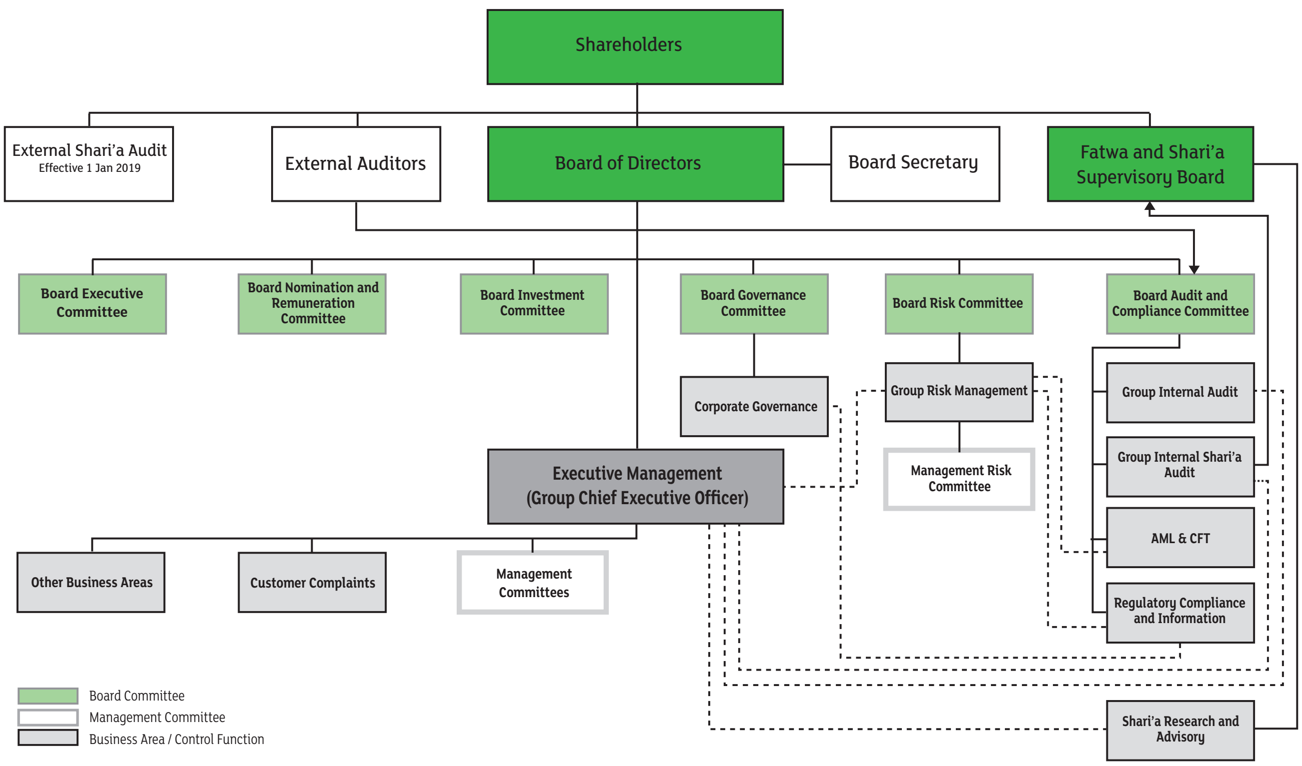
Name	Ownership Form	Country	Ownership Ratio
Kuwait Investment Authority	Direct	Kuwait	24.079%
Public Authority for Minors' Affairs	Direct	Kuwait	10.484%
General Foundation of Awkaf	Direct	Kuwait	7.296%
Public Institution for Social Securities	Indirect	Kuwait	5.8%

BoardMembers' Duties and Responsibilities

1- General Responsibilities of the Board of Directors

The Board of Directors shall bear the overall responsibility of KFH including the development of strategic goals, risk strategy, sound governance principles, and the application and oversight of the proper application of these goals and principles in addition to the responsibility of supervising executive management including the CEO.

The Board of Directors shall bear full responsibility for KFH's operations and sound financial position. Accordingly, the Board shall ensure compliance with the Central Bank of Kuwait's requirements; preserve the interests of the shareholders, depositors, creditors, employees and other stakeholders and related parties. In this context, the Board shall ensure that KFH is being managed prudently and in line with KFH applicable rules, regulations and bylaws.



2- Board Structure

Pursuant to KFH Articles of Association, the Board of Directors shall comprise ten members elected by the General Assembly through a secret ballot. Nomination was repeated for membership in the Board on the 20th March 2017. The General Assembly elected the board members. Accordingly, a new Board was formed in the 14th session. The Board office term is three years and a member may be re-relected for another term. The current Board of Directors consists of Chairman, Vice Chairman and eight board members who duly represent the quorum required for forming the Board Committees in accordance with sound governance principles set by the Central Bank of Kuwait.

2-1 Chairman's Role

Considering the significance of this role, Chairman shall ensure proper functioning of the Board, maintain mutual trust board members, and ensure that the decision–making process is based on sound grounds and accurate information. He shall ensure exchange of view points with board members and ensure timely reporting of sufficient information to board members shareholders.

The Chairman shall play a major role in maintaining constructive relationship between the Board and the Executive Management and ensure KFH has sound governance principles in place.

3- The Relationship between the Board of Directors and the Executive Management

KFH maintains cooperation and clear segregation of duties, functions and powers between the Board of Directors and Executive Management, thus satisfying a key requirement of sound corporate governance. As such, the Board shall take responsibility to provide guidance and leadership, while Executive Management shall take responsibility for drawing up and implementing the strategies and policies approved by the Board while ensuring that the board and its members are totally independent from the executive management. The Board shall also ensure that Executive Management is in strict compliance with the policies preventing and prohibiting the activities and relations which might contradict and compromise sound principles of corporate governance i.e. Conflict of Interests Policy and the Remuneration Policy.

4- Organizing Board Activities

The Board of directors held (12) meetings during 2018 within the current 14th session elected on 20th March 2017 i.e. 3 meetings during each quarter 2018 while the board members held (16) meetings during 2017. A meeting is called for whenever need arises. The number of meetings held exceeded regulatory requirements concerning corporate governance, which shall not be less than 6 meetings per year and not less than one meeting per quarter. The resolutions adopted during board meetings are binding and considered as an integral part of KFH records.

The Board adopted in 2018 a number of resolutions recorded in (28) minutes of board meetings issued by passing in 2018 while the committees made (16) minutes of resolutions by passing during 2018.

The Chairman discusses with executive management important issues which are proposed to be entered in the agenda and provides the board members with sufficient information in advance to take decisions. The board secretary shall take down all board discussions, recommendations and voting results in the meeting. The responsibilities of the chairman and members of the board are set in writing and determined as per all related legislations and regulations.

5 - Board Meetings

Names of board members and number of meetings held during 2018

Name / Date and meeting	Meeting dates in 2018												Attendance %
	8 Jan	1 Feb	5 Mar	9 Apr	7 May	4 Jun	9 Jul	10 Sep	3 Oct	8 Oct	12 Nov	10 Dec	
	1	2	3	4	5	6	7	8	9	10	11	12	
Mr. Hamad Abdul Mohsen Al Marzouq Chairman	√	√	√	√	√	√	√	√	√	√	√	√	100
Mr. Abdul Aziz Yacoub Al Nafisi Vice Chairman	√	√	√	√	√	√	√	√	√	√	√	√	100
Mr. Khaled Salem Al Nisf	√	√	√	√	√	√	√	√	√	√	√	√	100
Mr. Muad Saud Al Osaimi	√	√	√	√	√	√	√	√	√	√	√	√	100
Mr. Fahad Ali Al Ghanim	√	√	√	√	√	√	√	√	√	√	√	√	100
Mr. Ra'ed Khaled Al-Kharafi	X	√	√	√	√	√	√	√	√	√	√	√	92
Mr. Noorur Rahman Abid	√	√	√	√	√	√	√	√	√	√	√	√	100
Mr. Barrak Ali Alsheatan	√	√	√	√	√	√	√	√	√	√	√	√	100
Mr. Motlaq Mubarak Al-Sanei	X	√	√	√	√	√	√	√	√	√	√	√	92
Mr. Waleed Abdullah Al-Rawdan *	√	√	X	Resignation									67
Mr. Salah Abdulaziz Almuraikhi *	Was not a board member yet					√	√	√	√	√	√	√	100

√ Attendance X Absence

P.S. Mr. Waleed Abdullah Al-Rawdan has been replaced by Mr. Salah Abdulaziz Almuraikhi dated 21st of May 2018 corresponding to the Central Bank of Kuwait approval date.

6- Board Committees

During its current fourteenth session, KFH Board formed six subcommittees to assist in carrying out the duties and responsibilities of KFH. The number of committees is considered appropriate to oversee the diversified activities of KFH. All the members of the Board of Directors take part in these committees. Board Committees include the following:

6-1 Audit and Compliance Committee

Audit and Compliance Committee was formed to assist the Board in fulfilling and complying with its supervisory responsibilities on the bank's accounting operations, financial control systems, internal audit controls, compliance and risk management systems as well as the management of financial reports in cooperation with internal and external auditors to ensure compliance with regulatory requirements.

The Audit Committee comprises four board members including the committee chairman and vice chairman. At least two of the members must have knowledge in financial matters to perform their duties as members of the committee. Their membership in this Committee coincides with their Board membership.

In 2018, the Committee held (5) meetings. The committee issued a (2) resolutions by circulation. The Committee holds its meetings whenever required or upon the Committee chairman or the other two members' request.

The Audit Committee's duties and responsibilities comprise supervision on financial control regulations and systems at KFH and the reporting process as follows:

- Provide recommendations concerning external auditors appointment, dismissal, fees, qualifications and objectivity of their professional opinion.
- Discuss the results of the interim and final audit with external auditors and the resulting considerations along with any other issues external auditors wish to discuss.
- Set appropriate standards to ensure proper execution of external audit operations.
- Review and discuss appointment and dismissal of the head of internal audit, head of compliance and head of anti-money laundering and the Head of Shari'a Internal Audit and make recommendations to the board in this respect.
- Assess the performance of the internal audit, regulatory compliance and anti-money laundering and the Head of Shari'a Internal Audit and making recommendations on the remunerations of the persons heading those departments.
- Ensure that external auditors issue a statement on the Bank's compliance with the governance rules and regulations issued by CBK as part of the report submitted to CBK.
- Review accounting documents, reports and information on a regular basis and review financial statements with the executive department and external auditors before forwarding the same to the Board.
- Review accounting issues having significant impact on the financial statements.
- Supervise KFH internal audit policies and procedures and ensure sufficiency of human resources required for control functions.
- Review required provisions and ensure adequacy as per financial statements approved by the executive management.
- Carry out any other activities in line with KFH articles of association and applicable laws and as may be deemed suitable by the Board.
- Audit committee is authorized to acquire any information from, executive management. Also, it is entitled to invite, through official channels, any executive or board member to attend its meetings. The committee shall monitor the adequacy of internal controls at KFH.

Names of Audit and Compliance Committee members and the number of meetings held in 2018

Meeting dates in 2018						Attendance %
Date and meeting / Name	7 Jan	8 Apr	8 July	7 Oct	9 Dec	
	1	2	3	4	5	
Mr. Noorur Rahman Abid Head of Committee	√	√	√	√	√	100
Mr. Fahad Ali Al Ghanim	√	√	√	√	√	100
Mr. Waleed Abdullah Al-Rawdan *	√	Resignation				100
Mr. Barrak Ali Alsheatan	-	-	√	X	√	67
Mr. Salah Abdulaziz Almurakhi *	-	-	√	√	√	100

√ Attendance X Absence

P.S. Mr. Waleed Abdullah Al-Rawdan has been replaced by Mr. Salah Abdulaziz Almuraikhi dated 21th of May 2018 corresponding to the Central Bank of Kuwait approval date. Mr. Barrak Ali Alsheatan joined as a member in the Audit and Compliance Committee effective from the 3rd meeting dated 8th July 2018 of Audit and Compliance Committee (session 14 for 2017 – 2019).

6.2 Nomination and Remuneration Committee

The key role of the Nomination and Remuneration Committee is to assist the Board of Directors in meeting its obligations regarding the selection of qualified individuals for the Board and Executive Management membership and assess the performance of the Board and its committees. Also, the committee shall assists the Board in supervising short and long term remuneration systems. The committee shall recommend the board of directors' remunerations in accordance with Sharia laws and best international practices. The board of directors shall appoint the members of the said committee provided that they shall not be less than 3 members including head of committee. The Committee membership duration shall be 3 years or the remaining period of the board membership duration.

The Committee shall hold its meetings whenever needed but not less than twice a year. The Committee held (7) meetings during 2018 to conduct its duties and functions. The committee issued (2) minutes by passing to perform its function and duties.

The key functions of the Nomination and Reward Committee include but not limited to the following:

- Recommend nomination of persons qualified to act as Board members based on CBK approved policies, standards and instructions in regard to membership nominations. Nomination recommendations cover all candidates including those who are not recommended by the committee based on sound objective justifications.
- Recommendations to appoint the CEO and his deputies, Head of Financial Control and any other director reporting directly to CEO except the Head of Risk Management who shall be elected by the Risk Committee and the Head of Audit and Head of Compliance who shall be elected by the Audit and Compliance Committee as well as the Customer Complaints Manager.
- Annual review of the required board membership skills, determine skills to be enjoyed by the board members and committees and present suggestions on the board structure that serves the best interest of the bank.
- Annual evaluation of the overall performance of the Board and the performance of individual members.
- Determine authorities and functions of each executive or leading positions at the Bank and set required job responsibilities and qualifications in cooperation with Human Resources and concerned departments.
- Present suggestions on Bank fixed and variable remuneration policy structure and raising the same to the Board for approval.
- Conduct periodical review remuneration policy or when recommended by the Board and present recommendations to the Board to amend/ update such policy.

- Conduct a periodic assessment of the adequacy and effectiveness of the remuneration policy to ensure the achievement of the declared objectives.
- Present necessary recommendation to the Board regarding Board members' remuneration.
- Review financial remuneration plan structures related to share options for board's approval.
- Study remuneration recommendations presented by executive management concerning CEO remuneration and executive management remuneration.
- Coordinate with the Risk Committee to evaluate suggested incentives under the remuneration system.
- Conduct independent annual revision of the remuneration system to evaluate the Bank's compliance with the financial remuneration practices.
- Determine remuneration of executives representing the bank in KFH subsidiaries.

Names of the Nomination and Remuneration Committee Members and number of meetings held in 2018

Meeting dates in 2018								Attendance %
Date and meeting / Name	7 Jan	31 Jan	4 Mar	8 Apr	15 May	12 Nov	5 Dec	
	1	2	3	4	5	6	7	
Mr. Abdul Aziz Yacoub Al Nafisi Head of Committee	√	√	√	√	√	√	√	100
Mr. Noorur Rahman Abid	√	√	√	√	√	√	√	100
Mr. Barrak Ali Alsheatan	√	√	√	√	√	√	√	100
Mr. Motlaq Mubarak Al-Sanei	X	√	√	X	√	√	√	71

√ Attendance X Absence

6-3 Risk Committee

The key role of the Risk Committee is to assist the Board of directors in meeting its obligations in terms of overall supervision on the current risk conditions, risk strategy and the bank's appetite towards credit, banking, real estate and investment activities risks as well as all related policies and procedures. The committee shall comprise minimum 3 members including the chairman and the deputy. The Committee membership period shall coincide with the KFH board membership term.

The Committee held (8) meetings in 2018 to perform its duties and functions. The Committee performs several duties and responsibilities as follows:

- Review and evaluate the policies and framework of risk management and ensure the implementation thereof in a sharia compliant manner.
- Review capability and effectiveness of risk management in the risk management program of risk with the institutions with whom the Bank deals.
- Ensure adequacy of risk appetite adopted by the Bank and the Board's vision in this respect and ensure identification of key risks.
- Review adequacy of Bank risk management practices on a quarterly basis at least.
- Review risk management standards and internal control to ensure proper management of material risks in Bank businesses and provide supervision over credit risk, capital market risk, liquidity risk, liability management, legal risk and all relevant risks.
- Review standards and trends of risk based capital adequacy.

- Review new regulatory instructions in capital markets and amendments made in the accounting standards and other developments.
- Reviewing the risk management department structure, duties and responsibilities and supervision of risk management and annual assessment of the head of risk management.

Names of the Risk Committee Members and the number of meetings held in 2018

Meeting dates in 2018									Attendance %
Date and meeting / Name	17 Jan	18 Feb	16 Apr	10 Jun	12 Jul	16 Sep	11 Nov	16 Dec	
	1	2	3	4	5	6	7	8	
Mr. Khaled Salem Al Nisf Head of Committee	√	√	√	√	√	√	√	√	100
Mr. Raed Khaled Al-Kharafi	√	√	√	√	√	√	√	X	88
Mr. Muad Saud Al Osaimi	√	√	√	√	√	√	√	√	100
Mr. Motlaq Mubarak Al-Sanei	√	√	√	√	√	√	√	√	100

√ Attendance X Absence

6-4 Governance Committee

Governance Committee's main task is to assist the Board of Directors in performing its duties, supervising sound governance and develop governance policies and procedures. The committee shall monitor compliance with governance polices and governance guide by the board and its committees.

The Board Governance Committee comprises three Board members including the Committee Chairman and Vice chairman. Membership in this Committee coincides with Board membership.

The Committee holds its meetings whenever required provided that the number of meetings shall not be less than two meetings per year. The Committee held 3 meetings in 2018.

The Governance Committee duties include the following:

- Develop governance manual and framework and provide suggestions on revision and updating them from time to time.
- Review Bank policies and practices to ensure their adequacy in terms of governance standards.
- Review and assess professional code of ethics, code of conduct and other approved policies and guidelines in the Bank.
- Review key issues related to shareholders' relations and the Bank contributions to charity works.
- Review the corporate governance section in the annual report.
- Annual evaluation of performance in terms of the Governance Committee and its duties as well as the annual

Names of the Governance Committee Members and the number of meetings held in 2018

Meeting dates in 2018				Attendance %
Date and meeting / Name	7 Mar	10 Sep	9 Dec	
	1	2	3	
Mr. Ra'ed Khaled Al-Kharafi Head of the Committee	√	√	√	100
Mr. Hamad Abdul Mohsen Al Marzouq	√	√	√	100
Mr. Barrak Ali Alsheatan	√	√	√	100

√ Attendance X Absence

6-5 Executive Committee

The key role of the Executive Committee is to assist the Board of Directors in fulfilling its obligations regarding investment and banking activities according to the authorities delegated by the Board to the Committee. The Board may assign to the Committee any other duties that may assist the Board in performing its duties and responsibilities. The Board shall appoint Committee members whom shall not be less than five members. The Board also appoints the Committee Chairman from its members. The membership of the Committee shall be for three years or the period remaining from the Board term.

The Committee held (17) meetings in 2018. The executive committee issued (12) resolutions by circulation to perform its duties and functions.

The key duties of the Executive Committee include but not limited to the following:

- Supervise strategy implementation mechanism and the Bank action plan, and monitor performance efficiency. Review performance reports and present recommendation to the board in this respect.
- Review and approve performance reports, financing transactions and investment proposals presented by Executive Management according to the authorizations and delegations policies set by the Board.
- Approve or reject any suggestions related to finance, liquidity and / or market risks based on the financial authorities and limits approved by the Board in regard to single customer credit concentration limits.
- Review management strategy in regard to proposed provisions and management plan to recover bad debts (if any).
- Periodic revision of the diversity and durability of the finance portfolio.
- Coordination with the Risk Committee to prepare periodic reports for updating risk limits and potential excessive risk.

Names of Executive Committee Members and Number of Meetings held in 2018

Date and meeting / Name	Meeting dates in 2018																	Atten-dance %
	17 Jan	1 Feb	21 Feb	25 Mar	18 Arp	7 May	15 May	30 May	13 Jun	27 Jun	23 Jul	10 Sep	24 Sep	24 Oct	7 Nov	5 Dec	19 Dec	
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	
Mr. Hamad Abdul Mohsen Al Marzouq Head of Committee	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	100
Mr. Abdul Aziz Yacoub Al Nafisi	√	√	√	√	√	√	√	√	X	√	√	√	√	√	√	√	√	94
Mr. Khaled Salem Al Nisf	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	100
Mr. Muad Saud Al Osaimi	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	100
Mr. Fahad Ali Al Ghanim	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	100
Mr. Motlaq Mubarak Al-Sanei	√	√	√	√	√	√	√	X	√	√	√	√	√	√	√	√	√	94

√ Attendance X Absence

6-6 Investment Committee

The main objective of the investment committee is to assist the board in setting up and laying the general principles of investment, supervise the bank's investment activities and its subsidiaries activities as per the authorities assigned by the board to this committee, and verify compliance with investment objectives of the bank.

The committee held (6) meetings during 2018.

The main functions of the investment committee include but not limited to the following:

- The committee shall assist the banks board to execute its supervisory responsibilities over the bank's investment assets including investment funds and portfolio. The committee shall raise its recommendations to the board and follow up investments as per the approved policies and procedures.
- Review reports related to the bank investments current status and the prevailing conditions in local and international markets in addition to all information that would enable the committee to perform its responsibilities professionally and efficiently.
- Update the board on any material changes on the bank investments.
- Follow up implementation of strategic policies and goals set by the board in regard to all investment activities.
- Review all newly proposed investments and verify their conformity with the board plans and raise recommendations to the board in this respect.
- Seek assistance of outsource consultants to assist the committee in its missions.
- Present recommendations to the board in regard to any subject it may deem suitable.
- Acquire any information required in regard to the status of investment portfolio through CEO.
- Review executive management recommendations regarding the decisions for merging current investments and raise the same to the board.
- The committee shall practice any responsibilities and duties assigned by the board.
- The committee shall raise to the board recommendations to increase or decrease the capital of the companies in which the bank is a shareholder.

This covenant shall be reviewed and updated when required taking into consideration any changes in the bank business, governance framework, strategies, regulations, policies or any other material factors. Amendments and updates made on the regulations must be approved by the board.

Names of investment committee members and number of meetings held in 2018

Meeting dates in 2018							Attendance %
Date and meeting / Name	7 Jan	11 Apr	9 May	11 Jul	18 Oct	19 Dec	
	1	2	3	4	5	6	
Mr. Fahad Ali Al Ghanim Head of Committee	√	√	√	√	√	√	100
Mr. Khaled Salem Al Nisf	√	√	√	√	√	√	100
Mr. Muad Saud Al Osaimi	√	√	√	√	√	√	100
Mr. Salah Abdulaziz Al Muraikhi*	-	-	-	√	√	X	67
Mr. Waleed Abdullah Al-Rawdan	√	Resignation					100

√ Attendance X Absence

P.S. Mr. Waleed Abdullah Al-Rawdan has been replaced by Mr. Salah Abdulaziz Almuraikhi dated 21th of May 2018 corresponding to the Central Bank of Kuwait approval date.

Meetings of the Fatwa and Shari'a Supervisory Board (FSSB) during 2018

The FSSB of Kuwait Finance House held 46 meetings during 2018 at a rate of approximately one meeting per week. Attendance rates are as follows

Name	No. of Total meetings	No. of attendances	Attendance Percentage
Sheikh/Dr Sayyid Mohammad Sayyid Abdul Razaq Al-Tabtabae Chairman	46	46	100%
Sheikh/Dr. Anwar Shuaib Al-Abdulsalam - Member	46	35	76%
Sheikh/Dr. Mubarak Jeza Al-Harbi - Member	46	41	89%
Sheikh/Dr. Esam Abdulrahim Al-Ghareeb - Member	46	43	93%
Sheikh/Dr. Khaled Shujaa Al-Otaibi – Member	46	36	78%

Facilities obtained by the members of the Fatwa and Shari'a Supervisory Board:

Facilities obtained by members of the Fatwa and Shari'a Supervisory Board amounted:

Financing facilities: KD 367,711.

Credit Cards: KD 1,763.

Board of Directors Statement on the Internal Control Systems

Internal Control Systems

The Board acknowledges the value of strong internal control systems to the effectiveness and efficiency of operations, quality of internal and external reporting, compliance with the applicable laws and regulations and to KFH Group's overall governance. The Board has established an organization structure that sets clearly the lines of authorities. Senior Management is responsible for establishing and operating the internal control systems to manage the risks of not achieving KFH Group's objectives. The internal control systems can only provide reasonable but not absolute assurance against the risk of material loss.

The Board, through its Committees, reviews regularly the effectiveness of the internal control systems as assessed by the various internal control functions. The Board also ensures that these functions are properly positioned, staffed and resourced and are carrying out their responsibilities independently and effectively.

The Board also reviews the management letters issued by the bank's external auditors and reviews the report on Accounting and Other Records and Internal Control System (ICR) issued by the ICR auditors. The ICR auditors' opinion in this respect is included in the Annual Report.

The Board believes that the internal control systems adopted and operating during the year ended 31 December 2018 are adequate to provide reasonable assurance regarding the achievement of KFH Group's objectives.

External Auditors’ Report about Internal Control Systems

Report on Accounting and Other Records and Internal Control Systems

In accordance with our letter of engagement dated February 21, 2018, we have examined the accounting and other records and internal control systems of Kuwait Finance House K.S.C. (‹the Bank›) and Financial Institutions Subsidiaries companies that was in existence during the year ended 31 December 2017.

We covered the following areas of the Bank:

1. Risk Management
2. Investment
3. Treasury
4. Corporate Banking
5. Retail & Private Banking
6. Financial Control
7. Operation
8. Human Resources & General Services
9. Information Technology Investment
10. Regulatory Compliance
11. Strategy & Corporate Affairs
12. Internal Audit
13. Customer Complaints
14. Legal
15. Anti-Money Laundering
16. Shari’a Control & Advisory

In addition to the above, we have also examined the accounting and other records and internal control systems of the following financial subsidiaries of the Bank:

- Kuwait Finance House, Bahrain
- Kuwait Finance House (Malaysia) Berhad
- Kuvyet Turk Participation Bank
- KFH Capital Investment
- Aref Investment Group
- KFH Private Equity
- KFH Financial Services
- Saudi KFH
- E”amar

Our examination has been carried out as per the requirements of the Central Bank of Kuwait (CBK) circular dated (2 / IBS / 96 / 2003) and its amendments. Further, our examination has considered the CBK regulations in the following aspects:

- Aspect IV of the CBK regulations concerning Corporate Governance Rules as Kuwaiti Banks related to Risk management and Internal Controls.
- Instructions issued on 9 Feb 2010 pertaining to securing the confidentiality of information and data pertaining to clients of the bank.
- Instructions issued on 23 July 2013 pertaining to AML & CFT and other related instructions.
- Bank activities on Financial Securities.

We would like to indicate that your responsibilities as board member of KFH Bank include the establishment of accounting system, records and adeqacy of the Internal Control System for your bank, taking into account that the cost of such system should be commensurate with the benefits expected from their implementation. Nothing that the purpose of this report is to give you reasonable assurance, on the extent to which the adopted procedures and system are adequate to safeguard the bank's assets against the losses which may result from irresponsible acts and uses, as well as confirmations that: the risks are being monitored and accurately evaluated; the operations are processed according to the authorization procedures in place and are properly recorded; the procedures and systems enable you to exercise all types of business with care and caution.

However, it should be taken into account that the deficiency aspects in any of the accounting systems or Internal Control systems, may result in errors which can not be detected or traced, and that it is difficult to evaluate the adequacy of the systems for future period, because the management information and the control procedures may become insufficient due to change in circumstances or as a result of poor adherence to such procedures.

In our opinion, having regard to the nature and volumes of its operations during the year ended 31 December 2017, the accounting and other records and internal control systems, in the areas examined by us, were established and maintained in accordance with the requirements of the Manual of General Directives issued by the CBK and its amendments, further the CBK regulations in the aspects mention above, with the exception of the matters set out in the report appendix. These exceptions do not have a material impact on the fairness of the financial statements.

Furthermore, the Bank has established a process of quarterly follow-up on the exceptions reported in the previous reports to ensure that corrective actions had taken to rectify the exceptions stated in the Internal Controls Review report.

State of Kuwait

28 June 2018

Dr. Shuaib A. Shuaib

License No. 33- A

RSM Albazie & Co.

Remuneration Report

Remuneration Policy

KFH's Remuneration Policy is in line with its strategies and objectives and the Kuwaiti Labor Law in the private sector, and incorporates all the requirements of the CBK Corporate Governance Instructions issued in June 2012. The employees' remuneration includes both fixed and variable components, which include their cash and deferred remunerations, short-term and long-term incentives and End of Service Indemnity. The policy is designed to attract, retain and competitively reward those individuals with experience, skills, values and behaviors in order to achieve the Bank's overall goals.

Rewarding employees is directly linked to the Bank's short and long term performance. It also aligns the components of the remuneration packages with the Bank's short/long-term risk appetite. The policy has mechanisms in place to control the total remuneration based on the financial performance of the Bank, and in the case of poor performance, implementing a claw back in order to safeguard the Bank's interests.

The Bank's Board of Directors, with the assistance of the Nominations and Remuneration Committee, approves and modifies the Bank's remuneration policy and its design, and periodically reviews the process of its implementation and effectiveness to ensure that it is operating as intended.

Remuneration Components

The various remuneration components are combined to ensure an appropriate and balanced remuneration package that reflects the employee's grade in the Bank and the job function as well as market practice. The employee remuneration components are:

1. Basic salary

2. Benefits and allowances

The salaries reflect the individuals' skills and experience and are reviewed annually in the context of annual performance assessment. The salary packages are periodically benchmarked against comparable roles in other banks and other financial institutions. They are increased, where justified, by role change, increase in responsibility or where justified by the latest available market data. Salaries may also be increased in line with local regulations.

The Bank has a formal performance management process for evaluating and measuring staff performance at all levels. In the beginning of the year, the staff and their superiors plan and document the annual performance goals, required

competencies and personal development plans for the staff. At the annual performance appraisal interview, the

superiors of the staff and the reviewers evaluate and document performance against the documented goals. Decisions on adjustment of the employee's fixed salary and on performance-based incentives are made on the basis of annual performance review.

Other benefits like annual leave, medical leave and other leaves, medical insurance, annual ticket, and allowances are provided on the basis of individual employment contracts, local market practice and applicable laws.

Remuneration Disclosures as per the CBK Corporate Governance Instructions

As per the CBK's Corporate Governance Instructions, we have disclosed the remuneration paid to certain staff categories and the amounts paid to each category. The analyses include the fixed and variable parts of the remuneration package and methods of payment.

First: Board of Directors Remuneration

The financial remunerations paid to the Board of Directors are disclosed in Note (29) of the Annual Financial Statements.

Second: Remuneration of the Highest Paid Executives at KFH Kuwait

As per the CBK Corporate Governance Instructions, this section must include the total remuneration paid to the 5 highest paid senior executive officers, which includes their salary and short & long-term incentives in 2018. However, the group must also include the Chief Executive Officer (CEO), the Chief Risk Officer (CRO), the Chief Financial Officer (CFO) and the Head of Internal Audit if any of them are not part of the top 5.

Hence, this section includes the total remuneration in 2018 of the top 5 highest paid executives at KFH Kuwait as well as 2 mandatory positions which were not part of the top 5. The total for this group (top 5 + 2) amounted to KD 2,650,918 The remuneration package of each executive included fixed and variable pay components including salary (basic and benefits / allowances), short-term incentives including fixed and variable annual cash bonus, as well as long-term incentives and termination benefits.

Third: Remuneration by Specific Staff Categories

1. CEO and his deputies and/or other Senior Executives whose appointment is subject to the approval of the regulatory and supervisory authorities:

The total remuneration paid to this category amounted to KD 4,209,752 The remuneration package of each executive in this category included fixed and variable pay components including salary (basic and monetary / non-monetary benefits / allowances), short-term incentives including fixed and variable annual cash bonus, as well as long-term incentives and termination benefits.

2. Financial and Risk Control Staff:

The total remuneration paid to this category amounted to KD 3,893,870. The remuneration package of the staff in this category differed based on their grades as well as their individual employment contracts. The pay components included fixed and variable pay components including salary (basic and benefits / allowances), short-term incentives including fixed and variable annual cash bonus, as well as long-term incentives for eligible senior executives and termination benefits.

3. Material Risk Takers:

The total remuneration paid to this category amounted to KD 2,398,393 The category includes the top management and the Divisional Heads of the business functions with financial authorities and who delegate responsibilities to their respective divisional staff and are ultimately responsible and accountable for the risks taken by them. The total remuneration included fixed and variable pay components including salary (basic and benefits / allowances), short-term incentives including fixed and variable annual cash bonus, as well as long-term incentives and termination benefits.

Group Risk Management and Governance requirements

KFH pays special care and attention to risk management and governance requirements which is considered one of prudent management pillars within the banking business. Group Risk Management ("GRM") has a clear and continued footprint in KFH Group where it plays a vital role in evaluating risk exposures on Group level. Risk management is a part of daily processes, decision-making, and strategy setting, thereby making the understanding and management of various risks the responsibility of every business segment.

Last year, "GRM" endures in adoption of strategic initiatives to support capital optimization and asset quality improvement. These initiatives are driven by group strategy and supported by Executive Management. Meanwhile, GRM has updated its monitoring and reporting framework across KFH Group especially for Capital Management, Market & Liquidity Risk Management and, Business Continuity Management.

In compliance with the governance standards and requirements, during 2018 the Governance Committee has reviewed and updated a set of charters for both the Board of Directors ("BoD") and its Committees. KFH implemented CBK instructions related to "Sharia Governance at Islamic Banks" which has been released by the end of 2016. Also, Corporate Governance unit completed a full through evaluation for KFH subsidiaries' governance to be in line with Group Corporate Governance Policy.

Recently, Group Risk Management's ("GRM") adopted a new structure to enhance effectiveness, collaboration and risk integration. Four main pillars supports Risk function are:

- Credit Risk : Pre-fact, Post-fact and Debt Restructure Department.

- Retail Risk Management: specialized team to follow up and monitor risks arising from Retail financing.

- Enterprise Risk Management ("ERM"): Asset and Liabilities Management ("ALM"), Market and Investment risk, Liquidity, and Portfolio risk management.

- Non-Financial Risk : Operational Risk, Technology Risk and Business Continuity Management ("BCM").

To improve Risk Management and awareness across KFH, the bank created Management Risk Committee ("MRC") to support and help management to understand, oversee and manage group key risk exposures, optimize group enterprise risk profile within the context of the group approved strategy, risk appetite and regulatory requirements and to embed and maintain risk aware culture within the group.

A key part of Group Risk Management's ("GRM") mission is to drive continuous improvements throughout the Group via the implementation of standardized frameworks and methodologies. Group Risk Management ("GRM") regularly conducts Stress Tests and Internal Capital Adequacy Assessments ("ICAAP") across KFH Group. The bank remains compliant with all regulatory requirements and internally developed Capital Adequacy Key Risk Indicators (KRIs).

GRM took significant steps in upgrading its measurement, monitoring, and reporting systems, whereby bank-wide risk management is overseen on a comprehensive basis. Risk Exposures have been monitored, analyzed and recommendations communicated to the Board of Directors ("BoD"), Board Risk Committee ("BRC") and Management on a quarterly basis. Adopting these recommendations across the Group maintained Group CAR and the Asset Quality in good shape.

One of the main initiatives realized during 2018, Group Risk Management ("GRM") continued in the Group Capital Management Program, which involved internally identified initiatives to calibrate the Group's Risk Weighted Assets. Special considerations has been given to Market Risk Weighted Assets. Capital Adequacy Ratio (CAR) has stood at 17.47% for the year end ahead of regulatory requirements.

GRM also updated the Risk Appetite Framework (RAF) and regularly monitored KRIs across the Group.

Driven by the Asset and Liabilities Committee (ALCO), Market Risk and Liquidity is regularly monitored and reported across the Group. Liquidity Coverage Ratio ("LCR") and Net Stable Funding Ratio ("NSFR") comply with required level and ensure the ability to fulfil depositors' claims.

International Financial Reporting Standard 9 ("IFRS9") has its roots in the Financial Crisis. In that regard, the Group adopted the final ("IFRS9") guidelines circulated by CBK in December 2018.

The Operational Risk Management ("ORM") function has successfully enhanced its capabilities by implementing an industry recognized Operational Risk Framework for managing and monitoring key risks within the Group.

Similarly, KFH has upgraded its Anti-Money Laundering Framework to ensure compliance with continuously developing Anti-Money Laundering/Combating the Financing of Terrorism ("AML/CFT") regulations.

Technology has been driving change at a rapid rate in the financial services and banking industries and will continue to do so for the near future, bringing both innovation opportunities for growth, but also introducing new risks. As a result, KFH established a dedicated function to manage these risks in early 2016, the Group Technology Risk function continue to monitor and assess the banks technology related practices to ensure industry recognized controls and practices are implemented which provide underlying support to the Bank's core businesses.

Capital Adequacy Disclosures

Capital Adequacy Disclosures

Qualitative and quantitative disclosures related to Capital Adequacy Standard under Basel III have been prepared in accordance with Central Bank of Kuwait instructions and regulations issued as per circular 2/RB, RBA/336/2014 dated 24 June 2014. General disclosures related to Capital Adequacy Standard under Basel III rely on calculating the minimum capital required to cover credit and market risks using the Standardized Approach and the minimum capital required to cover operational risk using the Basic Indicator Approach.

First: Group Structure

Kuwait Finance House Group comprises the bank head office in Kuwait in addition to banking and non-banking (wholly or partially owned) subsidiaries. The bank owns certain other strategic investments. The subsidiaries are fully consolidated into the Bank's financial statements. Unaffiliated companies are disclosed as investments or subsidiary activities in the financial statements. Details about subsidiaries and associates are as follows:

1. Core Operating Subsidiaries: -

1.1 **Kuwait Turkish Participation Bank:** is a 62% (2017: 62%) owned Islamic bank registered in Turkey since 1989. Its main activities include providing Islamic banking and finance services, investment of funds on a profit/loss sharing basis.

1.2 **Kuwait Finance House B.S.C.:** is a 100% (2017: 100%) owned Islamic bank registered in the Kingdom of Bahrain since 2002. Its activities include providing Sharia compliant products and banking services, management of investment accounts on profit sharing basis and corporate finance.

1.3 **Kuwait Finance House (Malaysia) Berhard:** is a 100% (2017: 100%) owned Islamic Bank registered in Malaysia since 2006. Its main activities include providing Islamic finance products, investment in real estate, and corporate finance.

1.4 **Saudi Kuwaiti Finance House S.S.C. (Closed):** is a 100% (2017: 100%) owned subsidiary, registered in Kingdom of Saudi Arabia. The main activities of the company are to provide services as a principal or as an agent of underwriting, management, arrangement, advisory services and custody in relation to securities.

1.5 **Kuwait Finance House Capital Investment Company K.S.C. (Closed)*:** is a 99.9% (2017: 99.9%) owned Investment Company. Its activities comply with Islamic Shari'a including investments, Islamic finance services, equity trading, private equity investments, real estate investments and asset management services.

1.6 **KFH Private Equity Ltd:** is a 100% (2017: 100%) owned Investment Company registered at the Cayman Islands.Its main activities comprise global private equity investments

1.7 **Kuwait Finance House Real Estate Company K.S.C (Closed)*:** is a 99.9% (2017 : 99.9%) owned subsidiary. The company's activities include the provision of real estate rental and development services.

1.8 **Development Enterprises Holding Company K.S.C (Closed)*:** is a 99.9% (2017 : 99.9%) owned subsidiary. Its main activities include infrastructure and industrial investments.

1.9 **Baitak Real Estate Investment Company S.S.C.:** is a 100% (2017: 100%) owned real estate Investment Company registered in the Kingdom of Saudi Arabia. Its main activities comprise real estate investments and development.

1.10 **International Turnkey Systems Company K.S.C. (Closed):** is a 97% (2017: 97%) owned subsidiary whose activities include hardware and software maintenance and provision of specialized technical consultancies.

1.11 **Al Enma'a Real Estate Company K.S.C.P:** is a 56% (2017: 56%) owned subsidiary. The company's main activities include real estate development investment and trading.

1.12 **Turkapital Holding B.S.C. (C):** is a 51% (2017: 51%) owned subsidiary conducting its activities in real estate, car leasing and insurance services.

1.13 **Muthana Islamic Index Fund:** is a 20% (2017: 30%) owned subsidiary engaged in Islamic equity investment activity.

1.14 **Muthana GCC Islamic Banks Fund:** is a 92% (2017: 91%) owned subsidiary engaged in Islamic equity investment activity.

1.15 **Al Salam Hospital K.S.C. (Closed):** is a 76% (2017: 76%) owned subsidiary engaged in completing all activities related to the field of healthcare services.

1.16 **E'amar:** is a 100% (2017: 100%) wholly owned subsidiary engaged in Islamic investments.

1.17 **Gulf International Automobile Trading Company K.S.C. (Closed)*:** is a 99.6% (2017 : 99.6%) owned subsidiary engaged in trading, import and export of used cars.

*Effective ownership percentage is 100% (2017 : 100%).

2. Major Associates Companies

2.1 **Ibdar Bank B.S.C** is a 35% (2017: 40%) owned bank registered in Bahrain. Its main activities include providing a variety of investment products and services including the issuance of Islamic bonds, wealth management, treasury investments and investments in various economic sectors.

2.2 **Sharjah Islamic Bank P.J.S.C.:** is an 18% (2017: 18%) owned bank registered in Sharjah – United Arab Emirates since 1975. Its main activities include providing Islamic banking and finance services and products, corporate finance, treasury investments and asset management services.

2.3 **ALAFCO – Aviation Lease and Finance Company K.S.C.P:** is a 46% (2017: 46%). Its main activities include sale and leasing of aircraft according to Islamic Shari'a principles.

Second: Regulatory Capital Structure and Balance Sheet Reconciliation

A. Regulatory Capital Structure

The bank's regulatory capital comprises the following:

1. Tier 1 (T1) capital, which comprises:

   - Common Equity Tier 1 (CET1) – comprising shareholder's equity, retained earnings, reserves, and eligible portion of non-controlling interests.

   - Additional Tier 1 (AT1) – related to eligible portion of non-controlling interests.

2. Tier 2 (T2) capital – comprises eligible portion of non-controlling interests and eligible portion of general provisions (1.25% of credit risk-weighted assets).

   As at 31 December 2018, Tier (1) "Core Capital" amounted KD 1,941,387 thousand, Tier (2) "Supplementary Capital" amounted KD 190,477 thousand.

KD 000's

Regulatory Capital Components	31/12/2018
CET1: Common Equity Tier 1 Capital (Before Regulatory Adjustments)	2,086,578
Regulatory Adjustments for CET1	200,729
Total Common Equity Tier 1 (CET1)	1,885,849
Additional Tier 1 Capital (AT1)	55,538
Total Tier 1 (T1=CET1+AT1)	1,941,387
Tier 2 Capital (T2)	190,477
Total Capital (TC=T1+T2)	2,131,864
Total Risk Weighted Assets	12,201,132
Capital Adequacy Ratios	
Common Equity Tier 1 (as percentage of risk-weighted assets)	15.46%
Tier 1 (as percentage of risk-weighted assets)	15.91%
Total capital (as percentage of risk-weighted assets)	17.47%
Minimum capital ratio	
Common Equity Tier 1 minimum ratio	11.5%
Tier 1 minimum ratio	13.0%
Total capital minimum ratio	15.0%

B. Reconciliation of Regulatory Capital:

1. Common Disclosure Template:

The below table serves as a detailed breakdown of the bank's regulatory capital in a clear and consistent format.

KD 000's

	Common Equity Tier 1 capital: instruments and reserves	31/12/2018
1	Directly issued qualifying common share capital plus related stock surplus	1,354,559
2	Retained earnings	190,024
3	Accumulated other comprehensive income (and other reserves)	402,137
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)	0
5	Common share capital issued by subsidiaries and held by third parties (minority interest)	76,435
6	Net income	0
7	Proposed issue of bonus shares	63,423
	Common Equity Tier 1 capital before regulatory adjustments	**2,086,578**
	Common Equity Tier 1 capital: regulatory adjustments	
8	Prudential valuation adjustments	
9	Goodwill (net of related tax liability)	292
10	Other intangibles (net of related tax liability)	30,888
11	Cash dividends	125,097
12	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	
13	Cash-flow hedge reserve	
14	Shortfall of provisions to expected losses	
15	Taskeek gain on sale (as set out in para 72 of these guidelines)	
16	Gains and losses due to changes in own credit risk on fair valued liabilities	
17	Defined-benefit pension fund net assets (para 68)	
18	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	44,452
19	Reciprocal cross-holdings in common equity	
20	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold of bank's CET1 capital)	
21	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold of bank's CET1 capital)	
22	Mortgage servicing rights (amount above 10% threshold of bank's CET1 capital)	
23	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	
24	Amount exceeding the 15% threshold	
25	of which: significant investments in the common stock of financial institutions	
26	of which: mortgage servicing rights	
27	of which: deferred tax assets arising from temporary differences	
28	National specific regulatory adjustments	

29	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	
30	Total regulatory adjustments to Common Equity Tier 1 (CET1)	200,729
	Common Equity Tier 1 capital (CET1)	1,885,849
	Additional Tier 1 capital: instruments	
31	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	
32	of which: classified as equity under applicable accounting standards	
33	of which: classified as liabilities under applicable accounting standards	
34	Directly issued capital instruments subject to phase out from Additional Tier 1	
35	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	55,538
36	of which: instruments issued by subsidiaries subject to phase-out	
	Additional Tier 1 capital before regulatory adjustments	55,538
	Additional Tier 1 capital: regulatory adjustments	
37	Investments in own Additional Tier 1 instruments	
38	Reciprocal cross-holdings in Additional Tier 1 instruments	
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10%of the issued common share capital of the entity (amount above 10% threshold)	
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	
41	National specific regulatory adjustments	
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	
43	Total regulatory adjustments to Additional Tier 1 capital	
	Additional Tier 1 capital (AT1)	55,538
	Tier 1 capital (T1 = CET1 + AT1)	1,941,387
	Tier 2 capital: instruments and provisions	
44	Directly issued qualifying Tier 2 instruments plus related stock surplus	
45	Directly issued capital instruments subject to phase-out from Tier 2	
46	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	54,638
47	of which: instruments issued by subsidiaries subject to phase-out	
48	General provisions included in Tier 2 capital	135,839
	Tier 2 capital before regulatory adjustments	190,477
	Tier 2 capital: regulatory adjustments	
49	Investments in own Tier 2 instruments	
50	Reciprocal cross-holdings in Tier 2 instruments	
51	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10%of the issued common share capital of the entity (amount above the 10% threshold)	
52	Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	
53	National specific regulatory adjustments	
54	Total regulatory adjustments to Tier 2 capital	

	Tier 2 capital (T2)	190,477
	Total capital (TC = T1 + T2)	2,131,864
	Total risk weighted assets (after applying 50% additional weighting)	12,201,132
	Capital ratios and buffers	
55	Common Equity Tier 1 (as a percentage of risk weighted assets)	15.46%
56	Tier 1 (as a percentage of risk weighted assets)	15.91%
57	Total capital (as a percentage of risk weighted assets)	17.47%
58	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus D-SIB buffer requirement, expressed as a percentage of risk weighted assets)	11.5%
59	of which: capital conservation buffer requirement	2.5%
60	of which: bank specific countercyclical buffer requirement	
61	of which: D-SIB buffer requirement	2.0%
62	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	8.46%
	National minima	
63	National Common Equity Tier 1 (CET1) minimum ratio	11.5%
64	National Tier 1 minimum ratio	13.0%
65	National total capital minimum ratio	15.0%
	Amounts below the thresholds for deduction (before risk weighting)	
66	Non-significant investments in the capital of other financials	
67	Significant investments in the common stock of financials	
68	Mortgage servicing rights (net of related tax liability)	
69	Deferred tax assets arising from temporary differences (net of related tax liability)	34,005
	Applicable caps on the inclusion of provisions in Tier 2	
70	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)	290,215
71	Cap on inclusion of provisions in Tier 2 under standardized approach	135,839
72	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings- based approach (prior to application of cap)	
73	Cap for inclusion of provisions in Tier 2 under internal ratings-based	

2. Reconciliation Requirements Form:

A full reconciliation of all regulatory capital elements with the audited financial statements.

Step 1

KD 000's

Item	Balance sheet as in published financial-statements	Under Regulatory scope of consolidation	Ref.
	31/12/2018	31/12/2018	
Assets			
Cash and balances with banks and financial institutions	1,381,170	1,381,170	
Short-term Murabaha	3,248,450	3,248,450	
Financing receivables	9,385,474	9,385,474	
of which General Provisions (netted above) capped for Tier 2 inclusion	135,839	135,839	A
Sukuk Receivables	1,563,361	1,563,361	
Trading properties	147,639	147,639	
Investments	284,883	284,883	
Investment in associates and joint ventures	499,179	499,179	
Investment properties	489,609	489,609	
Other Assets	544,416	544,416	
Intangible assets and goodwill	31,180	31,180	
of which goodwill	292	292	B
of which other intangibles	30,888	30,888	C
Property and equipment	194,917	194,917	
Total Assets	**17,770,278**	**17,770,278**	
Liabilities			
Due to banks and other financial institutions	2,689,079	2,689,079	
Sukuk Payable	498,588	498,588	
Depositors account	11,780,310	11,780,310	
Other liabilities	728,131	728,131	
Total Liabilities	**15,696,108**	**15,696,108**	
Equity Attributable to the shareholders of the bank			
Share Capital	634,226	634,226	D
Share premium	720,333	720,333	E
Proposed issue of bonus shares	63,423	63,423	S
Treasury shares	(44,452)	(44,452)	F
Reserves	395,278	395,278	
of which: statutory reserve	298,527	298,527	G
of which: voluntary reserve	298,527	298,527	H
of which: treasury share reserve	6,947	6,947	I
of which: fair value reserve	(14,715)	(14,715)	
of which: eligible as CET1 Capital	(17,602)	(17,602)	K

of which: eligible as depositors' accounts	2,887	2,887	
of which: revaluation reserve	(238,293)	(238,293)	
of which: eligible as CET1 Capital	(176,567)	(176,567)	L
of which: eligible as depositors' accounts	(61,726)	(61,726)	
of which: other reserves	(20,642)	(20,642)	
of which: eligible as CET1 Capital	(7,695)	(7,695)	M
of which: eligible as depositors' accounts	(12,947)	(12,947)	
of which: retained earnings	64,927	64,927	T
Dividends (Declared but not incurred)	125,097	125,097	N
Total Equity Attributable to the shareholders of the bank	**1,893,905**	**1,893,905**	
Non-controlling interests	180,265	180,265	
Non-controlling interests eligible as CET1 capital	76,435	76,435	O
Non-controlling interests eligible as AT1 capital	55,538	55,538	P
Non-controlling interests eligible as Tier 2 capital	54,638	54,638	Q
Total Equity	**2,074,170**	**2,074,170**	
Total Liabilities and Equity	**17,770,278**	**17,770,278**	

Step 2 of Reconciliation requirements

KD 000's

	Common Equity Tier 1 capital: instruments and reserves	Component of regulatory capital	Source based on reference letters of the balance sheet from step 1
1	Directly issued qualifying common share capital plus related stock surplus	1,354,559	D+E
2	Retained earnings	190,024	T + N
3	Accumulated other comprehensive income (and other reserves)	402,137	G+H+I+K+L+M
4	Common share capital issued by subsidiaries and held by third parties (minority interest)	76,435	O
5	Proposed issue of bonus shares	63,423	S
6	**Common Equity Tier 1 capital before regulatory adjustments**	**2,086,578**	
	Common Equity Tier 1 capital : regulatory adjustments		
7	Goodwill	(292)	B
8	Other intangible assets	(30,888)	C
9	Treasury shares	(44,452)	F
10	Cash dividends	(125,097)	N
11	Total regulatory adjustments to Common Equity Tier1	(200,729)	
12	**Common Equity Tier 1 capital (CET1)**	**1,885,849**	
	Additional Tier 1 capital: instruments		
13	Common share capital issued by subsidiaries and held by third parties (minority interest)	55,538	P
14	**Total Tier 1 capital**	**1,941,387**	
	Tier 2 capital : instruments and provisions		
15	Common share capital issued by subsidiaries and held by third parties (minority interest)	54,638	Q
16	General Provisions included in Tier 2 Capital	135,839	A
17	Total Tier 2 capital	190,477	
	Total capital	**2,131,864**	

Third: Risk weighted assets and Minimum Capital Requirement

a) Credit risk

KFH credit risk management follows a specific framework to ensure that:

- Clearly defined credit policies are available for corporate, retail, real estate and financial institutions finance. These policies articulate the requirements for approval of new, renewed and amended credit facilities in terms of financial requirements and documentation.
- A system of credit authority matrix that ensures (1) Authorities are commensurate with the experience, ability functional and supervisory grades of employees and managers (2) Risk Management department reviews and examines credit requests before final decision, (3) Significant credit exposures are approved by management committees or the Board as per authority matrix
- A credit rating system for Corporate, SME, Financial Institutions, Real Estate, and High Net Worth financing is in place.

- Limits are in place to ensure that the bank undertakes risks within the approved appetite and within regulatory requirements.
- A process to ensure credit policies are being complied by ensuring that the required documentation is in place and the required approvals are obtained.
- Effective follow-up processes are in place to mitigate arrears through early detection of deterioration in the financing portfolio and associated management actions to handle such credits

KFH's approach for granting credit facilities is based primarily on an assessment of the customers' capacity to pay in addition to supplementary support by credit risk mitigations. Facilities may be granted without collaterals depending on the customer's status and type of product. Collaterals used to mitigate credit risk are considered as one of the main pillars of effective risk management and takes many forms as per CBK regulations. The bank's policy for collaterals defines the list of accepted collaterals. The collaterals accepted by the bank include financial collaterals (cash and securities) and non- financial (real estate, bank guarantees, and third-party agreements).

KFH has reviewed and enhanced its corporate financing credit process. The main enhancements to the process includes:

(a) Streamlining of the process itself to ensure efficient and effective decision-making process and clear assignment of responsibilities,

(b) Enhancing and realigning the credit authority matrix to ensure proper and clear escalation of decisions and the involvement of all relevant parties from the business, risk, and the Board.

(c) Activate the Credit Committee with the adequate level of membership and authority level to review and approve or recommend credit requests.

KFH has adopted the standardized approach to measure the capital required for credit risk under Pillar 1. However, credit risk arising from name concentration, sector concentration, and those remaining from credit mitigation techniques are captured under Pillar 2 as they are not covered under Pillar 1.

KFH adopts Moody's Credit Rating system for its internal credit ratings.

1. Credit Risk Capital Requirements:

KD 000's

Ser.	Credit risk exposures	Total Exposures	Net Exposures	Risk weighted Assets	Required Capital
1	Cash items	262,824	262,824	-	-
2	Claims on sovereigns	4,135,692	4,135,692	497,086	74,563
3	Claims on public sector entities	489,954	489,954	35,236	5,285
4	Claims on MDBs	65,400	65,400	12,387	1,858
5	Claims on banks	2,210,535	2,210,535	671,226	100,684
6	Claims on corporates	3,388,318	3,130,379	2,587,675	388,151
7	Regulatory retail exposure	3,716,793	3,656,298	2,787,540	418,131
8	Qualifying residential housing financing facilities	466,564	414,818	116,160	17,424
9	Past due exposures	372,192	241,467	108,032	16,205
10	Inventory and commodities	37,996	37,996	56,999	8,550
11	Real estate investments	1,439,625	994,886	1,591,973	238,796
12	Investment and financing with customers	939,583	780,584	933,227	139,984
13	Other exposures	1,402,768	1,402,768	1,315,207	197,281
	Total	**18,928,244**	**17,823,601**	**10,712,748**	**1,606,912**

2. Total Credit Risk exposures classified as "Self-Financed or Financed from Investment Accounts" :

KD 000's

Ser.	Credit risk exposures	Total	Self-Financed	Finance form Investment Accounts
1	Cash item	262,824	163,796	99,028
2	Claims on sovereigns	4,135,692	2,577,515	1,558,177
3	Claims on public sector entities	489,954	305,347	184,607
4	Claims on MDBs	65,400	40,758	24,642
5	Claims on banks	2,210,535	1,460,097	750,438
6	Claims on corporates	3,388,318	2,317,507	1,070,811
7	Regulatory retail exposure	3,716,793	2,378,052	1,338,741
8	Qualifying residential housing financing facilities	466,564	290,770	175,794
9	Past due exposures	372,192	232,811	139,381
10	Inventory and commodities	37,996	23,679	14,317
11	Real estate investments	1,439,625	897,195	542,430
12	Investment and financing with customers	939,583	590,586	348,997
13	Other exposures	1,402,768	874,226	528,542
	Total	**18,928,244**	**12,152,339**	**6,775,905**

3. Net Credit Exposures classified as Rated or Unrated (External Ratings)

KD 000's

Ser.	Credit risk exposures	Net credit exposures	Rated exposures	Unrated exposures
1	Cash item	262,824	-	262,824
2	Claims on sovereigns	4,135,692	4,135,372	320
3	Claims on public sector entities	489,954	461,151	28,803
4	Claims on MDBs	65,400	65,400	-
5	Claims on banks	2,210,535	1,984,035	226,500
6	Claims on corporates	3,130,379	100,985	3,029,394
7	Regulatory retail exposure	3,656,298	-	3,656,298
8	Qualifying residential housing financing facilities	414,818	-	414,818
9	Past due exposures	241,467	-	241,467
10	Inventory and commodities	37,996	-	37,996
11	Real estate investments	994,886	-	994,886
12	Investment and financing with customers	780,584	-	780,584
13	Other exposures	1,402,768	-	1,402,768
	Total	**17,823,601**	**6,746,943**	**11,076,658**

4. Average Credit Risk exposures, average Self-Financed Assets and average Assets Financed from Investment Accounts on quarterly basis:

KD 000's

Ser.	Credit risk exposures	Average Credit Risk Exposure	Self-financed	Financed via Investment Accounts
1	Cash item	265,924	163,710	102,214
2	Claims on sovereigns	4,016,751	2,473,420	1,543,331
3	Claims on public sector entities	382,586	236,690	145,896
4	Claims on MDBs	67,463	41,554	25,909
5	Claims on banks	1,840,718	1,206,107	634,611
6	Claims on corporates	3,832,540	2,618,083	1,214,457
7	Regulatory retail exposure	3,714,719	2,349,096	1,365,623
8	Qualifying residential housing financing facilities	508,436	312,361	196,075
9	Past due exposures	404,177	249,754	154,423
10	Inventory and commodities	36,230	22,305	13,925
11	Real estate investments	875,980	540,647	335,333
12	Investment and financing with customers	1,438,208	887,742	550,466
13	Other exposures	1,389,579	856,176	533,403
	Total	**18,773,311**	**11,957,645**	**6,815,666**

5. Excess Risk Concentrations

Concentration risks arise when several counterparties are engaged in similar activities in the same geographical area or have similar economic features that would cause their ability to meet their contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate relative sensitivity of the Group's performance to developments affecting a particular industry sector or geographical location.

In order to avoid excessive risk concentrations, the Bank's policies and procedures include specific guidelines to focus on maintaining diversified financial portfolios, thus establishing control over certain credit risk concentrations. Credit risk mitigation techniques are used by the Bank to manage risk concentrations both at the relationship and industry levels.

a. Geographical distributions for credit risk exposure

KD 000's

Ser.	Credit Risk exposures	MENA	North America	Europe	Asia	Others	Total
1	Cash item	95,690	-	159,055	8,079	-	262,824
2	Claims on sovereigns	3,069,558	-	879,791	186,343	-	4,135,692
3	Claims on public sector entities	461,151	-	-	28,803	-	489,954
4	Claims on MDBs	8,009	5,830	-	51,561	-	65,400
5	Claims on banks	1,309,118	101,065	602,753	84,195	113,404	2,210,535
6	Claims on corporates	1,469,482	401	1,636,842	280,616	977	3,388,318
7	Regulatory retail exposure	2,858,996	-	683,349	174,448	-	3,716,793
8	Qualifying residential housing financing facilities	107,031	-	308,074	51,459	-	466,564
9	Past due exposures	312,923	-	32,563	26,706	-	372,192
10	Inventory and commodities	37,987	-	-	9	-	37,996
11	Real estate investments	1,362,115	24,890	7,186	45,434	-	1,439,625
12	Investment and financing with customers	738,972	10,835	-	189,776	-	939,583
13	Other exposures	1,043,856	52,169	232,424	67,456	6,863	1,402,768
	Total	**12,874,888**	**195,190**	**4,542,037**	**1,194,885**	**121,244**	**18,928,244**

b. Maturities of total Credit Risk exposures

KD 000's

Ser.	Credit Risk exposures	Up to 3 months	3 to 12 months	Over 1 year	Total
1	Cash item	262,824	-	-	262,824
2	Claims on sovereigns	2,591,477	852,716	691,499	4,135,692
3	Claims on public sector entities	278,993	157,546	53,415	489,954
4	Claims on MDBs	51,561	-	13,839	65,400
5	Claims on banks	1,862,923	197,767	149,845	2,210,535
6	Claims on corporates	666,772	978,185	1,743,361	3,388,318
7	Regulatory retail exposure	174,900	331,149	3,210,744	3,716,793
8	Qualifying residential housing financing facilities	3,173	15,097	448,294	466,564
9	Past due exposures	-	-	372,192	372,192
10	Inventory and commodities	4,819	4,482	28,695	37,996
11	Real estate investments	-	436	1,439,189	1,439,625
12	Investment and financing with customers	289,416	350,081	300,086	939,583
13	Other exposures	52,547	78,641	1,271,580	1,402,768
	Total	**6,239,405**	**2,966,100**	**9,722,739**	**18,928,244**

c. Main sectors of total Credit Risk exposures

KD 000's

Ser.	Credit Risk exposures	Manu-facturing &Trade	Banks and financial instittions	Con-struction & real estate	Govern-ment	Others	Total
1	Cash item	10	166,995	46	-	95,773	262,824
2	Claims on sovereigns	-	-	-	4,135,692	-	4,135,692
3	Claims on public sector entities	-	-	-	-	489,954	489,954
4	Claims on MDBs	-	65,400	-	-	-	65,400
5	Claims on banks	-	2,210,535	-	-	-	2,210,535
6	Claims on corporates	973,468	300,594	790,774	-	1,323,482	3,388,318
7	Regulatory retail expo-sure	302,012	-	140,982	-	3,273,799	3,716,793
8	Qualifying residential housing financing facilities	-	-	-	-	466,564	466,564
9	Past due exposures	72,843	59,898	170,079	-	69,372	372,192
10	Inventory and com-modities	1,434	-	600	-	35,962	37,996
11	Real estate investments	-	-	498,235	-	941,390	1,439,625
12	Investment and financ-ing with customers	43,069	15,461	445,557	-	435,496	939,583
13	Other exposures	21,528	201,661	286,128	-	893,451	1,402,768
	Total	**1,414,364**	**3,020,544**	**2,332,401**	**4,135,692**	**8,025,243**	**18,928,244**

6. Past due and impairment provisions

Credit facilities are classified as "past-due" if the profit or principal instalment is past due 1 - 90 days. A credit facility is considered as "past-due and impaired" if the profit or a principal instalment is past due for more than 90 days.

"Past due and impaired" facilities are classified into the following four categories which are then used to guide the provisioning process:

Category	Criteria
Watchlist	Irregular for a period up to 90 days
Substandard	Irregular for a period between 91 and 180 days
Doubtful	Irregular for a period between 181 days and 365 days
Bad	Irregular for a period exceeding 365 days

The Group may also classify a credit facility as impaired based on management's judgment of a customer's financial and/or non-financial circumstances.

As at 31 December 2018, non-performing cash finance facilities before impairment (net of deferred profit and suspended profit) amounted to KD 217,758 thousand for the group.

A specific provision of KD 95,968 thousand has been made by the group, as detailed below:

a. Exposures based on standard portfolios

KD 000's

Ser.	Description of credit risk exposures	Impaired	Specific Provision	Specific Provision Write-off	Past due
1	Claims on corporate	50,109	67,897	105,430	251,151
2	Regulatory retail exposure	45,276	14,430	18,174	163,020
3	Qualifying residential housing financing Facilities	2,065	486	0	33,228
4	Investment and financing with customers	120,308	13,155	25,323	132,286
	Total	**217,758**	**95,968**	**148,927**	**579,685**

b. Exposures based on geographical

KD 000's

Ser.	Description of credit risk exposures	Impaired	Specific Provision	Specific Provision Write-off	Past due
1	Middle East & North Africa	155,651	68,878	111,034	385,832
3	Europe	49,368	23,190	32,541	151,325
5	others	12,739	3,900	5,352	42,528
	Total	**217,758**	**95,968**	**148,927**	**579,685**

c. Exposures based on Industrial

KD 000's

Ser.	Description of credit risk exposures	Impaired	Specific Provision	Specific Provision-Write-off	Past due
1	Manufacturing and Trade	31,029	18,829	102,859	173,688
2	Banks and financial institutions	717	38,990	6,474	28
3	Constructions & real estate	103,136	20,979	21,419	175,288
4	Others	82,876	17,170	18,175	230,681
	Total	**217,758**	**95,968**	**148,927**	**579,685**

d. General Provision Allocation

KD 000's

Ser.	Description of credit risk exposures	2018
1	Claims on sovereigns	77
2	Claims on public sector entities	4,931
3	Claims on banks	5,210
4	Claims on corporates	131,455
5	Regulatory retail exposures	48,650
6	Investment and financing with customers	87,892
	Total	**278,215**

7. Applicable Risk Mitigation Methods

KFH ensures the diversification of exposures according to the standard portfolios, business sectors and geographical distributions cross borders and the continuous evaluation of risk mitigation methods against finance obligations and credit limits of the customer as per the analytical study of the customer's financial position.

Haircuts are applied on eligible collaterals and guarantees according to CBK instructions when calculating Capital Adequacy Ratio. Netting is applied for exchange of deposits with banks and financial institutions. Bank collaterals are used to redirect risk to claims on banks portfolios. Standard supervisory haircuts are applied to eligible collaterals according to CBK's regulations and related circulars.

The Bank compliance with the credit concentration limits per customer and maintaining adequate ratios of liquid assets provides several methods to measure the quality and effectiveness of risk mitigation methods used to mitigate capital requirements.

Residual risk after credit risk mitigations: KFH applies a package of financial and non-financial guarantees to mitigate credit risk. In case of default or restructuring due to credit deterioration provisions are made to accommodate future losses (if any). KFH Group applies authorized models (used to calculate provisions as per Standard 9) to estimate potential losses in cases where guarantees and provisions are not sufficient to absorb full loses in light of a conservative scenario to calculate residual risks resulting from credit risk mitigation.

Main Types of Collaterals: KFH Group credit policy has provided a description of all KFH acceptable collaterals including related conditions, deduction ratio and the necessity to conduct periodical appraisal of each collateral according to its nature.

The bank demands that all collaterals must be Sharia compliant and shall include the following acceptable types of collaterals:

- Cash funds: - margin (guarantee, down payment, margins, profit sharing investment accounts or cash at banks)
- Securities: listed and unlisted shares.
- Real estate: Trade real estate – residential properties.

- Inventory
- Machines and equipment
- Vehicles/ cars

Other collaterals may be accepted as guarantees if approved by the board risk committee.

Risk mitigation means of total credit risk exposures KD 000's

Ser.	Credit Risk Exposures	Gross credit exposures	Eligible Collaterals
1	Cash item	262,824	-
2	Claims on sovereigns	4,135,692	-
3	Claims on public sector entities	489,954	-
4	Claims on MDBs	65,400	-
5	Claims on banks	2,210,535	-
6	Claims on corporates	3,388,318	257,939
7	Regulatory retail exposure	3,716,793	60,495
8	Qualifying residential housing financing facilities	466,564	51,746
9	Past due exposures	372,192	130,726
10	Inventory and commodities	37,996	-
11	Real estate investments	1,439,625	444,738
12	Investment and financing with customers	939,583	158,999
13	Other exposures	1,402,768	-
	Total	**18,928,244**	**1,104,643**

b. Market risk

Market Risk Weighted Exposure during the financial year 2018 amounted KD 263,163 thousand, based on the standard approach. Minimum capital required to cover market risk reached KD 39,474 thousand.

One of the methods used to mitigate exchange rate risks for which the Islamic bank is exposed to, include netting of exchange of deposits transactions with banks and financial institutions.

c. Operational risk

Operational risk weighted exposures calculated during the year 2018 amounted to KD 1,225,221 thousand as per the Basic Indicator Approach. The amount calculated for operational risk weighted exposures is adequate to cover any projected risks to maintain a reasonable profit ratio for shareholders and investment account owners. The minimum required capital for operational risk exposures amounts to KD 183,783 thousand.

KFH considers that internal assessment process of capital adequacy in addition to stress tests as core risk management tools to assess capital adequacy against various risks which KFH encounters in normal and difficult conditions (stress conditions). Results of stress tests are used to conduct effective studies on risk and capital. Adequacy conditions at the highest level in the bank. KFH applies effective risk governance framework to enhance risk control and ensure effectiveness and efficiency of risk department initiatives and activities at the group level. Internal capital adequacy evaluation process and stress tests cover KFH group subsidiaries. Stress tests are conducted on the group's banking subsidiary. Regarding capital requirement under pillar2, KFH uses two methods to consolidate Pillar 2 results at the group level based on risk categories:

- Straight sum of the Pillar 2 capital calculation of the individual subsidiaries and Kuwait results: This method is used for credit concentration risk, remaining credit risks, liquidity risk, FX risk, legal risk, reputational risk, strategic risk, remaining operational risk and profit rate risk. This ensures conservatism by eliminating the impact of any correlation between these risks.

- Pillar 2 solo performed on the individual subsidiary level and at the group level: This method is used for equity price risk. For example, VAR is calculated at the subsidiary portfolio level using relevant variance/ covariance matrices as well as at the group aggregated portfolio. This method allows KFH to account for diversification benefit when VAR calculations are performed on the group portfolio exposures.

The banking subsidiaries undertake their own Internal Capital Adequacy Assessment independently. In fact, KFH follows a dual top-down and a bottom-up approach. In the top-down approach, the analysis is conducted from the group's parent entity stand point. The results are then compared and discussed with the banking subsidiaries' on foot of their own calculations and analysis (bottom-up approach). This enables management to get a better understanding of the risks at the banking subsidiary level versus at the group level and allows the management to challenge the results of the individual subsidiaries accordingly.

Fourth: Risk Management:

Risk management is kept at the center of the executive agenda, it is embedded in everyday management of the business. The variety of its business portfolio requires KFH to identify, measure, aggregate and manage risks effectively, and to allocate capital among businesses appropriately. Risk is managed through a framework of principles, organizational structures as well as measurement and management processes that are integrated with the activities of the business sectors. KFH's approach to risk management involves a number of fundamental elements that drives processes across the lines of business.

- Provide effective Risk Management framework across the group which support stable and controlled growth considering the best Risk / Return trade off, in addition to improve group asset quality with efficient use of resources.
- Enhancement of KFH-Group rating.
- Improve meeting regulatory requirements and to be proactive to satisfy the future needs.
- Provide support to management for risk informative decisions and considering forward looking scenarios while reviewing business strategies.

Risk Strategy is formulated under three pillars:

Group capital planning and Risk weighted Assets optimization:

Main focus is to have a solid capital base that supports planned business growth, absorbs any potential losses "if any" and in compliance with regulatory requirements. Under this pillar, initiatives have been taken to seek the levers of Capital Adequacy Ratio and Enhancing Rating Systems Capabilities

Improving Asset Quality and Risk Appetite:

Enhance Group Risk Appetite to support management to maintain/improve asset quality accompanied with business growth.

Asset quality has been significantly improved as a result of enhancing financing underwriting criteria, having the right governance in line with best practices as well

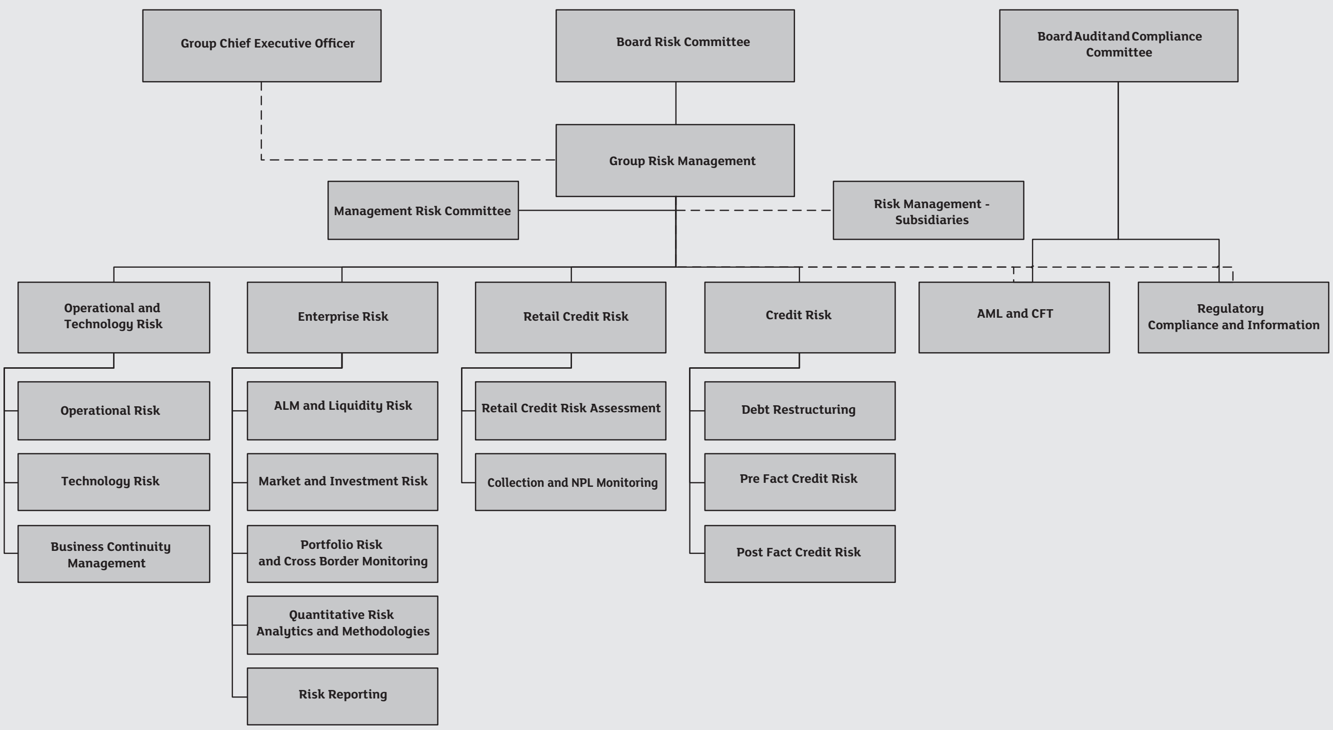
Group integration: Enhancing risk governance, culture and integration across the group.

The policies are being reviewed on a regular basis for any potential enhancement from the governance prospective and to reflect the regulatory requirement as well. The best practices that improve the governance are being rolled over KFH Banking Subsidiaries

Organizational Structure

KFH has restructured its organizational structure at the bank level by shifting from a function based structure to a more effective structure to process current and future business needs and avail proper opportunities.

Risk Governance Structure at the Group Level



In line with best practices in risk management, KFH has adopted a hybrid mechanism in credit and investment decision-making where both businesses and risk management play an active role. This integration of risk management in these decisions ensures an independent/ risk experienced judgment as well as compliance with internal risk management guidelines and strategy of the bank. In 2018, the Board approved enhancements to the risk management structure in order to enhance best utilization of capabilities and knowledge sharing by grouping together financial and non-financial risk units and establishing a new function to oversee the retail credit portfolio to ensure that risks are identified and properly mitigated in line with the established risk governance framework.

New Management Risk Committee (MRC) was established in H1-2018 to support and help management to understand, oversee and manage group key risk exposures, optimize group enterprise risk profile within the context of the group approved strategy, risk appetite and regulatory requirements and to embed and maintain risk aware culture within the group. The key role of MRC is to support BRC in achieving its duties and objectives sets by Board through advice, facilitation, monitoring and follow up on execution of decisions and in maintaining high risk governance standards.

Risk Management by Risk Type

KFH group and subsidiaries are exposed to various types of risks. The main types of risk comprise credit risks, market risks, liquidity risk, operational risk, reputation risk and strategic risks.

A. Credit Risk

Credit risk is one of the major types of risk encountered by KFH. KFH is exposed to credit risk mainly through its finance portfolio. Credit risk sources may be categorized as follows:

- Risks related to customer's financial statements and financial performance which can highlight the customer's ability to serve the debt and make full settlement.
- Risks related to customer management and operations which can highlight customer's viability.
- Risks related to customer's character where customer is a high net worth customer, but the nature of his character shows high probability of default. Inquiries on the customer and his credit transactions/ relations internally or through other banks may highlight these facts.
- Risk related to market or economic sector where the customer conducts his activities.
- Risks related to peripheral environment of the customer and the bank which may affect the finance process due to changes in legislations and regulations.
- Sovereign risks (Geopolitical) related to any political or economic incidents (revolutions, wars, recession).
- Counterparty risk resulting from exposures to finance portfolio or sukuks portfolio as follows:
    - Corporate finance: overdrafts granted to finance customers excluding real estate companies.
    - Retail finance: overdrafts granted to retails customers excluding real estate companies.
    - SME finance and banking: exposures less than KD 250 thousand excluding real estate companies
    - Real estate companies finance: exposures granted to local and global real estate companies of finance and retail customers.
    - Investment companies finance: direct finance or through treasury.
- Default risks to settle sukuks/ sovereign risks.
- Concentration risks resulting from major credit exposures of a certain or a group of customers or sectors, thus exposing the bank to major losses in case of deterioration of credit circumstances or to avoid excessive credit concentrations.
- The bank is also exposed to credit risk through its investment portfolio in case of customers default to settle liabilities or financial value as per contracts.

Governance and Organizational Structure

The responsibility to manage credit risk resides with different groups within the organization. The role of the credit risk governance structure is to ensure that the credit approval and risk appetite frameworks are effectively in place and that all risks are undertaken within these frameworks. This, together with strong independent oversight and challenge, enables KFH to maintain a sound credit granting environment within risk appetite.

Under the adopted risk governance structure at KFH, the following bodies within the organization are responsible for managing credit risk as follows:

Board of Directors/ Board Risk Committee: the Board has the ultimate responsibility for credit risk oversight. It exercises this by defining the risk appetite for the bank and approving the major policies for managing credit risk (including Credit Policy). The Board is also the ultimate source of credit authority; it delegates part of this authority to the management. The Board & Risk Committee also oversee the risk profile of the bank.

Board Executive Committee / Credit Committee: the Credit Committee reviews and takes action on the credit risk profile of the bank while ensuring alignment with the Board approved risk appetite. The committee ensures at a high level that all approved credit risk policies are complied with and that exceptions are duly approved. It reviews and approves credit applications within the credit approval authority limits delegated to it by the Board. It is also responsible for overseeing problem/ potential problem exposures and recommending course of action. It also governs the credit enhancement framework of the bank.

Special Purpose Committee: Held once per month, this committee performs a detailed review over the portfolio of clients of the wholesale banking department. In addition to portfolio performance analysis, the committee reviews on a client-by-client basis each past due, collateral coverage, exceptions granted, limits expiry etc. to ensure minimal level of defaults and better credit quality of the portfolio

Businesses: the different lines of business at KFH share the responsibility of managing credit risk by undertaking risks within the approved limits and tolerances as well as by approving credit applications within their delegated credit approval authority limits delegated by the Board.

Risk Management Department: The Credit Review Department (within the Risk Management Department) undertakes pre-fact analysis of credit applications and post -fact assessment and reporting on credit quality. This enables the Risk Management department to review and challenge all applications for new, renewed and restructured financing facilities. The Risk Management department reporting to the GCRO oversees the overall asset portfolio at KFH and ensures its alignment with the approved risk appetite; it is also responsible for defining the methodologies and policies for managing credit risk as well as the models required for measurement.

Internal Audit: the department provides the board and senior management with an independent assurance process for credit risk controls across the organization.

Methods and Processes

KFH credit risk management follows a specific framework to ensure that:

Clearly defined credit policies for Corporate, Retail, Real Estate and Financial institutions finance. These policies articulate the requirements for approval of new, renewed and amended credit facilities in terms of financial requirements and documentation.

A system of credit authority matrix that ensures (1) authorities are commensurate with the experience, ability and personal character of individuals, (2) the Risk Management department reviews and challenges credit requests, (3) significant credit exposures are approved by management committees or the Board as per delegation of authority matrix

A credit rating system for Corporate, SME, Financial Institutions, Real Estate, and High Net Worth financing is in place.

A system of limits to ensure that the bank undertakes risks within the approved appetite and within regulatory requirements.

A process to ensure credit policies are complied with regulatory requirements by making sure that the required documentation is in place and the required approvals are obtained

Effective follow-up processes to mitigate arrears through early detection of deterioration in the financing portfolio and associated management actions to handle such credits

KFH’s approach, when granting credit facilities, is based primarily on an assessment of the customers’ capacity to repay, with supplementary support from credit risk mitigation. Depending on a customer’s standing and the type of product, facilities may be provided unsecured. Mitigation of credit risk is a key aspect of effective risk management and takes many forms as approved by CBK. The bank’s policy for collaterals defines the list of accepted collaterals and the protection of credits. The collaterals used by the bank include financial collaterals (cash and securities) and non-financial (real estate, bank guarantees, and third party agreements).

KFH has reviewed and enhanced its corporate financing credit process. The main enhancements to the process includes:

(a) Streamlining of the process itself to ensure efficient and effective decision making process and clear assignment of responsibilities,

(b) Enhancing and realigning the credit authority matrix to ensure proper and clear escalation of decisions and the involvement of all relevant parties from the business, risk, and the Board,

(c) Activate the Credit Committee with the adequate level of membership and authority level to review and approve or recommend credit requests.

KFH has adopted the standardized approach to measuring the capital required for credit risk under Pillar 1. However, credit risk arising from name concentration, sector concentration, and those remaining from credit mitigation techniques are captured under Pillar 2 as they are not covered under Pillar 1.

B) Market Risk

Sources of Risk

Market risk is defined as the risk that arises from the Banks' investments transactions, including investments in equity shares (both listed and unlisted), Sukuk, real estate and others. These risks are classified into three main areas through which the market risk is being measured and managed, as it directly impact the performance of the Bank's investment portfolio, they are as follows:

Price risk: this is the risk arising from the fluctuation in the market value of investments – equity (trading and banking book including strategic investments), Sukuk, and real estate

FX risk: this is the risk of incurring losses due to changes in currency exchange rates which affects both the banking book (including structural positions arising from cross-border investments) and trading book

Profit rate risk: given the Sharia compliant activities of the bank, profit rate risk results from the effect of the changes in market profit rates that would distress KFH's future cash flows and the fair value of some available for sale financial assets

Governance and Organization

The management of market risk is primarily undertaken by Treasury department. However, other related parties across the organization also play a role in the management of market risk. Under the Bank governance structure the following parties within the organization are responsible for managing market risk as follows:

Board of Directors: the Board is ultimately responsible for ensuring effective market risk management. It sets the market risk appetite for the bank and approves the major policies for managing market risk. The Board also oversees the risk profile of the bank throughout the Board Risk Committee.

ALCO: the committee is responsible for maintaining oversight and managing the structure/ composition of the balance sheet (Group and Kuwait Standalone) to ensure alignment with the Board approved risk appetite and bank wide strategy. The ALCO also sets Treasury strategy. ALCO is held on regular basis and more frequently, if required. The committee ensures at a high level that all approved market risk policies are complied with and that exceptions are duly approved. It also decides on the hedging policy of the bank and on the hedging mechanisms and hedging products.

Treasury department/ Investment arm of KFH: Treasury executes the overall bank strategy and mitigate the risks undertaken by the bank. Starting 2015, KFH Capital (subsidiary) became the investment arm for KFH Group. KFH Capital function is to manage the bank's investment portfolio within the approved risk appetite and levels.

Risk Management Department:

The market risk management independently monitors, follows-up and controls the treasury and investment activities, and propose the necessary limits. Market Risk management identify and measure market risk exposure to the bank. Such risks are presented and discussed in more than one committee. It's also manages the market risk from comprehensive

Bank perspective to track the potential concentrations, and also to raise the necessary recommendations to mitigate risk, when necessary. Also it oversees compliance with the Market risk policies and limits.

Internal Audit: the department provides the board and senior management with an independent assurance process for market risk controls across the organization.

Methods and Processes

The objective of KFH's market risk management processes is to manage and control market risk exposures in order to optimize return on risk while maintaining a market risk profile consistent with risk appetite.

Market risk Framework operates within the bank's strategy and approved risk appetite. Hence the framework will take into considerations the following:

Earnings at risk

Economic value of equity

FX open positions

Investment exposure by type

Value at Risk (VAR)

Duration & Convexity

KFH has also embarked on an end-to-end review of its investment process and performance management framework by KFH Capital which considered the investment arm of KFH and includes defining target sectors and geographies, limits on exposures, etc.

KFH Capital undertakes the responsibility of valuating the non-performing investments, prioritizing portfolio restructuring activities, developing individual restructuring plans for troubled investments, and assessing consolidation and carve-out options for these investments.

The bank also conducts a periodical valuation of its real estate investments using 2 different valuation sources as per CBK requirements.

In terms of inventory risk, KFH has a well-developed and successful business model for managing its car fleet for sales and leasing. This includes well-developed relationships with suppliers to source and sell cars without negatively impacting the business.

KFH has adopted the standardized approach to measuring the capital required for market risk under Pillar 1. However, market risk arising from FX positions, price risk and profit rate risk are further captured under Pillar 2.

C) Liquidity Risks

Sources of Risk

KFH identifies sources of liquidity risk as follows:

Liquidity risk: Risk arising from KFH's inability to meet its commitments when they become due as result of a drop in market liquidity or unavailable funding options or from depositors systematically withdrawing their funds

Displaced commercial risk: Risk that deposit holders withdraw their money in pursuit of more attractive returns because KFH pays a return on deposits that is lower compared to the market.

Governance and Organization

KFH Board, GALCO/ALCO and treasury function are ultimately responsible for the management of the group liquidity risk. However other parties in the organization play a role in ensuring the liquidity risk management framework is in place and operating effectively:

Board of Directors: the Board is ultimately responsible for ensuring effective management of liquidity risk.It sets the liquidity and funding risk appetite for the bank and approves the major policies concerning liquidity risk management and funding. The Board also oversees the liquidity and funding risk profile of the bank.

ALCO: the committee is tasked with the active oversight of funding and liquidity risk management for (KFH Kuwait & Group).They approve the policy framework in the first instance and monitor its implementation in its regular meetings.

Treasury: Treasury executes strategies to mitigate and manage liquidity risk. Treasury also monitors liquidity positions.

Risk Management Department:

The Liquidity Management Unit's methodology is based on following-up with Treasury Department through identifying, measuring and monitoring liquidity risk on a regular, active and independent basis. KFH is committed to all liquidity regulatory limits through KFH's prudent liquidity management framework.

Internal Audit: the department provides the board and senior management with an independent assurance process for liquidity risk controls across the organization.

Methods and Processes

To manage liquidity risk, the Bank has adopted the policies of liquidity risk including operational management of liquidity risk, policy of contingency funding plan and the distribution of responsibilities. The framework of liquidity risk at KFH is working on ensuring and having a sufficient liquidity at all times to meet the expected or unexpected demands by customers and money market at an acceptable price and in compliance with the Islamic rules of Shari'a. The Contingency Plan has been implemented to enable KFH to manage the liquidity during liquidity crisis.

As set out in BASEL III guidelines and in reference to the best practices of managing and monitoring the banks liquidity risk, KFH has adopted the BASEL III Liquidity ratios; Liquidity coverage ratio (LCR), and Net Stable Funding ratio (NSFR). LCR and NSFR are being measured on frequently basis throughout KFH Kuwait and banking group as per the Central bank of Kuwait circular and guidelines to insure that KFH is at all times managing the liquidity risks, well-funded and complied with the liquidity regulator's limits of those ratios.

KFH ensures that liquidity risk is adequately mitigated through the following liquidity strategies:

- Maintaining a stock of high-quality liquid assets that can be used (liquidated or borrowed against) to provide cash in the event of an unexpected demand for cash by customers;
- Diversifying funding resources in terms of source, tenor and re-pricing characteristics to mitigate the risk of not being able to access cash at an acceptable price at all times;
- Monitoring movements in both on and off-balance sheet assets and liabilities to identify points of pressure for liquidity management;
- Implementing stress scenarios to identify periods of reduced liquidity and incorporate these into the assessment of liquidity requirements;
- Identifying and ranking all funding sources available to the Bank and to establish a plan for calling on these to ensure adequate liquidity at all times (funding contingency plan);
- Assigning responsibility for the actions required to ensure an effective liquidity risk management framework is in place.

KFH believes that is adequately funded. In addition, it has an approved funding contingency plan in order to follow the prudent liquidity management practices. As well as the daily monitoring of liquidity and funding positions under forecasted and stressed business assumptions and report this to ALCO, the Executive Committee and the Board Risk Committee on a regular basis. The funding contingency plan requires the establishment of funding sources to be called on in progressively worsening situations and set clear responsibilities for the executives tasked with managing liquidity under the Plan. Further, Capital required to cover liquidity risk due to increases in funding costs is captured under KFH's Pillar 2 capital requirements.

D) Operational Risks

Sources of Risk

KFH is exposed to the risk of loss as a result of inadequate or failed internal processes, people and systems or from external events, including legal risk. Accordingly, operational risk could be broken down as follows:

Operational Risk: Risk of losses resulting from execution, delivery and process management, damage to physical assets, violation of employment practices and workplace safety regulations and products or business practices

Legal and Compliance Risk: Risk of incurring losses due to violations of or ambiguous practices regarding laws, rules, regulations, policies procedures, contractual obligations or ethical standards

Technology Risk: Risk of losses or service disruptions arising from the failure of Information Technology e.g. system defects, faults, or incompleteness in computer operations, in addition to illegal or unauthorized use of computer systems that may lead to an adverse impact on the confidentiality, availability and integrity of the systems and data.

Fraud Risk: Risk of losses due to internal fraud, e.g. fraud by employees and external fraud, e.g. third-party theft and forgery

Governance and Organization

Operational risk management is primarily the responsibility of all employees and business management. Each department head has responsibility for maintaining oversight over operational risk and internal control, covering all processes for which they are responsible.

Other entities in the organization which are responsible for the governance of operational risk management are as follows:

Board of Directors / Board Risk Committee: the Committee is ultimately responsible for ensuring effective operational risk management. It sets the operational risk appetite for the bank and approves the major policies for managing operational risk.

Risk Management Department: The Operational Risk Management department of the new risk organization primarily assists the management in discharging its responsibility to oversee operational risk within their departments. It is also responsible for maintaining the operational risk management framework, monitoring the level of operational losses and the effectiveness of the control environment. It is also responsible for operational risk reporting.

Internal Audit: the department provides the board and senior management with an independent assurance process for operational risk controls across the organization.

Methods and Processes

The objective of KFH's operational risk management framework is to manage and control operational risks in a cost-effective manner within targeted levels of operational risk consistent with the approved risk appetite.

KFH is implementing Risk Control Self-Assessment "RCSA" process which entails defining business objectives and the respective key risks, mapping control activities to the risks, assigning control activities owners, and assessing the effectiveness of controls and the residual risks and developing risk treatment action plans intended to mitigate risks. RCSAs has been conducted and completed for Business Units that is according to Operational Risk Management's Plan.

The bank has also defined a number of operational KRIs which are currently being measured and monitored for Key

Business Activities.

The bank also systematically captures risk event data from the businesses and functional departments through the loss data management system and collection workflow.

In terms of business continuity management, the bank has in place a committee monitoring the implementation of the business continuity plan. To date, a complete business impact analysis has been developed and signed off.

KFH has adopted the basic indicator approach to measuring the capital required for operational risk under Pillar 1. In addition, the bank simulated under Pillar 2 the expected losses from 7 different operational loss events: internal fraud, external fraud, employment practices and workplace safety, clients, products, & business practices, damage to physical assets, business disruption and system failures, and execution, delivery & process management. Residual risks resulting from operational risks are covered by the capital requirements estimated as part of the Monte Carlo simulations conducted under Pillar 2 to test the mitigates of operational risk. The bank also calculates capital required to cover losses from legal risk under Pillar 2.

E) Rate of Return Risks

Profit rate Risk result from the possible impact of those changes on the ryield curve over future cash flows or fair value of financial tools. The group is not exposed to profit rate risks as the bank operates in accordance with Sharia regulations. However, variations in the rate of return may affect the fair value of certain financial available for sale assets. Risk department follows up and measures variation in profit rate risk and applies various stringent scenarios, taking into consideration factors impacting contract prices including:

- **CBK discount rate**
- **Economic activity (growth/ recession)**
- **Current phase of economic cycle.**
- **Profit distribution ratios provided by other Islamic banks.**

Fifth: Investment Accounts Related Information

KFH provides a variety of investment saving accounts to encourage customers to save and plan for their future along with benefiting from the profits of their saved amounts. Therefore, KFH offers such accounts to various age groups with various features and advantages where accounts can be opened in Kuwaiti Dinars as well as foreign currencies. Such accounts include: (Investment Saving Account in Kuwaiti Dinars and foreign currencies, Al-Rabeh Account, Baiti Account and Wakala based Corporates Call Account).

All investment saving accounts can be opened for both individuals (either adults or minors) and corporates according to the special conditions and provisions of such types of accounts. As for call accounts, they are designed only for corporates and legal entities (committees, associations, etc.) a Wakala call account, which is an investment saving account based on ""Wakala "Shari'a principle.

All investment saving accounts are invested according to the Shari'a principles of "Mudarabah" and "Wakala" as per the conditions of the investment contract and profit-sharing ratios.

Information on Long Term Investment Plans and Deposits

KFH provides many types of investment deposits for customers to avail large number of investment tools that help customer to invest and achieve safe and secured profits. KFH offers numerous types of investment deposits with different advantages and features in terms of investment tenure, profits ratios and distribution as well as currency. Such deposits include: Continuous Deposit, Al-Dimah, Al-Nuwair, Al-Sedra, Al-Kawthar, Alkhumasiya, Investment Deposit in Foreign Currencies). .

KFH provides Long Term Investment Plans, covered by various types of insurance coverage and various specifications in Kuwaiti Dinars. These accounts include the savings plan for higher education "Jameati", the savings plan for the purposes of retirement "Thimar", savings plan for the marriage "Rafaa", savings plan for special projects "INJAZ" and savings plan for special medical care "Shifaa"

Such deposits can be opened for individuals, corporates and legal entities (associations - unions - institutions - etc.), provided that the legal age for the customer is 21 years or above, and it is permissible for the Shari'a guardian, by a court judgment, to open a deposit on behalf of the minor.

The importance of investment deposits arises from providing greater stability to the banks operations. Hence, KFH can invest such investment deposits in various productive projects, either directly or through providing finance to third parties, noting that all accounts are invested in accordance with the Shari'a principles of Mudarabah or investment Wakala.

Gold Account

Out of KFH' keenness on diversification of the product activities and keeping pace with the global economic changes that had been accompanied with increased global trends for buying and selling gold bullion, KFH has launched the Gold Account which enables customers to buy, sell, withdraw and deposit gold (when needed) through banking accounts while holding gold owned by the customer as a trust at KFH. Moreover, KFH's customers using KFH online service can benefit from the "Gold Account" service to open an account, buy and sell gold, and request statement of account through KFH online services or KFH mobile application.

Sixth: Shari'a Controls

Fatwa and Shari'a Supervisory Board

Fatwa and Shari'a Supervisory Board ("FSSB") follows regulatory policies and procedures to ensure the compliance of all KFH's sectors and departments to its decisions. To achieve this goal, FSSB may adopt the following:

1) Develop Shari'a training programs for KFH employees on the basic and advanced levels in coordination with the Training and Development - Human Resources and General Services Department - KFH.
2) Ensure the compliance of KFH's sectors and departments with presenting all their activities to FSSB, to review and approve the contracts and agreements models, policies, procedures and financing structures; with a view of ensuring that they are free of Shari'a prohibitions.
3) Review the periodical and final Shari'a audit reports related to all KFH's sectors and departments as raised by Shari'a Control and Consultancy Department; to ensure the compliance with Shari'a regulations
4) Ensure that all revenues recognized from non-Shari'a compliant sources or by means prohibited by Shari'a have been disposed to be used for charity purposes
5) Zakat is calculated following the CBK's approval on KFH's financial statements. The General Assembly
6) The General Assembly shall determine the remuneration of the FSSB's members

Auditors' Report & Consolidated Financial Statements

Kuwait Finance House K.S.C.P and Subsidiaries
CONSOLIDATED FINANCIAL STATEMENTS
31 December 2018

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

Report on the Audit of Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Kuwait Finance House K.S.C.P. ("the Bank") and its subsidiaries (collectively "the Group"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted for use by the State of Kuwait.

Basis for Opinion

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

Key Audit Matters

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

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

Report on the Audit of Consolidated Financial Statements (continued)

Key Audit Matters (continued)

Credit losses on Islamic financing to customers
The recognition of credit losses on Islamic financing to customers ("financing facilities") is the higher of Expected Credit Loss ("ECL") under International Financial Reporting Standard 9: Financial Instruments ("IFRS 9"), determined in accordance with the Central Bank of Kuwait (the "CBK") guidelines, or the provision required by the CBK rules on classification of financing facilities of their provision (the "CBK instructions") as disclosed in the accounting policies in Note 2.6 and Note 10 to the consolidated financial statements.

Recognition of ECL under IFRS 9, according to CBK guidelines, is a new and complex accounting policy, which requires considerable judgement in its implementation. ECL is dependent on management's judgement in assessing the level of credit risk on initial recognition and significant increase in credit risk subsequently on the reporting date for classification of credit facilities into various stages, determining when a default has occurred, development of models for assessing the probability of default of customers and estimating cash flows from recovery procedures or realization of collateral. Recognition of specific provision on impaired financing facility under the CBK instructions is based on the rules prescribed by the CBK on the minimum provision to be recognized together with any additional provision to be recognised based on management estimate of expected cash flows related to that financing facility.

Due to the significance of financing facilities and the related estimation uncertainty and judgement in the impairment calculation, this was considered as a key audit matter.

Our audit procedures included assessing the design and implementation of controls over, inputs and assumptions used by the Group in developing the models, its governance and review controls performed by the management in determining the adequacy of credit losses.

With respect to the ECL based on IFRS 9, according to CBK guidelines, we have selected a samples of financing facilities outstanding as at the reporting date and checked the appropriateness of the Group's determination of significant increase in credit risk and the resultant basis for classification of the financing facilities into various stages. For a sample of credit facilities, we have checked the appropriateness of the Group's staging criteria, Exposure at Default ("EAD") Probability of Default ("PD") and Loss Given Default ("LGD") including the eligibility and value of collateral considered in the ECL models used by the Group to determine ECL. We have also checked the consistency of various inputs and assumptions used by the Group's management to determine ECL.

Further, for CBK provision requirements, we have assessed the criteria for determining whether there is a requirement to calculate any credit loss in accordance with the related regulations and, if required, it has been computed accordingly. For the samples selected, we have verified whether all impairment events have been identified by the Group's management. For the selected samples which also included impaired financing facilities, we have assessed the valuation of collateral and checked the resultant provision calculations.

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

Report on the Audit of Consolidated Financial Statements (continued)

Key Audit Matters (continued)

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

We carried out procedures to understand management's process for identifying impairment triggers such as significant adverse changes in the technological, market, economic, or legal environment in which the investee operates, structural changes in the industry in which the investee operates, changes in the political or legal environment affecting the investee's business and changes in the investee's financial condition. Our audit procedures included, amongst others, assessing the appropriateness of the recoverable amounts determined by management and the valuation methods used. For impairment assessment we evaluated the reasonableness of the key assumptions used by management in determining the value-in-use computation

We also assessed the adequacy of the Group's disclosure in Note 13 and 14 of the consolidated financial statements.

Impairment test of investment properties and trading properties
Management's assessment of impairment of real estate properties was significant to our audit because this process is complex and requires judgement. Furthermore, there is an increased risk of impairment due to deteriorated market outlook in various geographical areas, in which the Group operates. Accordingly, we considered this a key audit matter.

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

The disclosure relating to the investment properties is given in note 15 to the consolidated financial statements.

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

Report on the Audit of Consolidated Financial Statements (continued)

Key Audit Matters (continued)

Valuation of currency swaps, profit rate swaps, forward foreign exchange and forward commodity contracts ("Islamic derivative financial instruments")
The Group has significant Islamic derivative financial instruments, the valuation of which is determined through the application of valuation techniques, which often involve the exercise of judgement and the use of assumptions and estimates. Due to the significance of Islamic derivative financial instruments and the related estimation and uncertainty, this is considered as key audit matter.

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

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

The disclosure relating to Islamic derivative financial instruments is given in note 28 to the consolidated financial statements.

Other information included in the Group's 2018 Annual Report
Management is responsible for the other information. Other information consists of the information included in the Group's Annual Report, other than the consolidated financial statements and our auditors' report thereon. We obtained the report of the Bank's Board of Directors, prior to the date of our auditors' report, and we expect to obtain the remaining sections of the Annual Report after the date of our auditors' report.

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

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

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

Report on the Audit of Consolidated Financial Statements (continued)

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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

Report on the Audit of Consolidated Financial Statements (continued)

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of account have been kept by the Bank and the consolidated financial statements, together with the contents of the report of the Bank's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that, we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the Central Bank of Kuwait ("CBK") as stipulated in CBK Circular Nos. 2/RB, RBA/336/2014 dated 24 June 2014 and 2/I.B.S./343/2014 dated 21 October 2014 respectively, the Companies Law No.1 of 2016, as amended and its executive regulations, as amended and by the Bank's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the CBK as stipulated in CBK Circular Nos. 2/RB, RBA/336/2014 dated 24 June 2014 and 2/I.B.S./343/2014 dated 21 October 2014 respectively, the Companies Law No.1 of 2016, as amended and its executive regulations, as amended or of the Bank's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2018 that might have had a material effect on the business of the Bank or on its financial position.

We further report that, during the course of our audit, we have not become aware of any violations of the provisions of Law No 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organisation of banking business, and its related regulations, during the year ended 31 December 2018 that might have had a material effect on the business of the Bank or on its financial position.

WALEED A. AL OSAIMI	BADER A. AL-WAZZAN
LICENCE NO. 68 A	LICENCE NO. 62A
EY	DELOITTE & TOUCHE
AL-AIBAN, AL-OSAIMI & PARTNERS	AL-WAZZAN & CO.

10 January 2019
Kuwait

CONSOLIDATED STATEMENT OF INCOME
For the year ended 31 December 2018

	Notes	2018 KD 000's	2017 KD 000's
INCOME			
Financing income		**862,055**	740,509
Finance cost and distribution to depositors		**(334,786)**	(295,662)
Net financing income		**527,269**	444,847
Investment income	3	**63,319**	106,571
Fees and commissions income		**86,627**	96,896
Net gain from foreign currencies		**30,277**	17,325
Other income	4	**38,516**	47,641
TOTAL OPERATING INCOME		**746,008**	713,280
EXPENSES			
Staff costs		**(177,569)**	(187,523)
General and administrative expenses		**(81,487)**	(82,824)
Depreciation and amortization		**(33,404)**	(34,671)
TOTAL OPERATING EXPENSES		**(292,460)**	(305,018)
NET OPERATING INCOME		**453,548**	408,262
Provisions and impairment	5	**(162,510)**	(163,411)
Profit (loss) for the year from discontinuing operations	18	**410**	(228)
PROFIT BEFORE TAXATION AND PROPOSED DIRECTORS' FEES		**291,448**	244,623
Taxation	6	**(26,982)**	(29,590)
Proposed directors' fees	24	**(942)**	(878)
PROFIT FOR THE YEAR		**263,524**	214,155
Attributable to:			
Shareholders of the Bank		**227,411**	184,155
Non-controlling interests		**36,113**	30,000
		263,524	214,155
BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO THE SHAREHOLDERS OF THE BANK	7	**36.36 fils**	29.46 fils

The attached notes 1 to 38 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2018

	KD 000's	
	2018	*2017*
Profit for the year	**263,524**	214,155
Items that will not be reclassified to consolidated statement of income in subsequent periods:		
Revaluation loss on equity instruments at fair value through other comprehensive income	**(4,790)**	-
Items that are or may be reclassified subsequently to consolidated statement of income:		
Sukuk investments at fair value through other comprehensive income:		
Net change in fair value during the year	**(21,385)**	-
Recycled to consolidated statement of income	**6,021**	-
Net loss on sukuk investments at fair value through other comprehensive income	**(15,364)**	-
Financial assets available for sale:		
Net change in fair value	-	12,667
Net transfer to consolidated statement of income	-	(17,946)
	-	(5,279)
Share of other comprehensive (loss) income of associates and joint ventures	**(597)**	270
Exchange differences on translation of foreign operations	**(122,546)**	(37,782)
Other comprehensive loss for the year	**(143,297)**	(42,791)
Total comprehensive income	**120,227**	171,364
Attributable to:		
Shareholders of the Bank	**133,487**	155,405
Non-controlling interests	**(13,260)**	15,959
	120,227	171,364

The attached notes 1 to 38 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2018

	Notes	*2018* KD 000's	*2017* KD 000's
ASSETS			
Cash and balances with banks	8	**1,381,170**	1,262,456
Short-term murabaha	9	**3,248,450**	2,925,329
Financing receivables	10	**9,385,474**	9,216,475
Investment in Sukuk	11	**1,563,361**	1,428,655
Trading properties		**147,639**	161,137
Investments	12	**284,883**	304,293
Investment in associates and joint ventures	13,14	**499,179**	463,797
Investment properties	15	**489,609**	554,321
Other assets	16	**544,416**	464,558
Intangible assets and goodwill	17	**31,180**	38,659
Property and equipment		**194,917**	214,001
Assets classified as held for sale	18	**-**	324,300
TOTAL ASSETS		**17,770,278**	17,357,981
LIABILITIES			
Due to banks and financial institutions		**2,689,079**	2,239,923
Sukuk payables		**498,588**	518,078
Depositors' accounts	20	**11,780,310**	11,596,733
Other liabilities	21	**728,131**	699,236
Liabilities directly associated with the assets classified as held for sale	18	**-**	187,889
TOTAL LIABILITIES		**15,696,108**	15,241,859
EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE BANK			
Share capital	23	**634,226**	576,569
Share premium	22	**720,333**	720,333
Proposed issue of bonus shares	24	**63,423**	57,657
Treasury shares	23	**(44,452)**	(45,063)
Reserves	22	**395,278**	466,101
		1,768,808	1,775,597
Proposed cash dividends	24	**125,097**	96,645
TOTAL EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE BANK		**1,893,905**	1,872,242
Non-controlling interests		**180,265**	243,880
TOTAL EQUITY		**2,074,170**	2,116,122
TOTAL LIABILITIES AND EQUITY		**17,770,278**	17,357,981

HAMAD ABDUL MOHSEN AL-MARZOUQ
(CHAIRMAN)

MAZIN SAAD AL-NAHEDH
(GROUP CHIEF EXECUTIVE OFFICER)

The attached notes 1 to 38 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2018

KD 000's

	Attributable to the shareholders of the Bank								*Non-controlling interests*	*Total equity*
	Share capital	*Share premium*	*Proposed issue of bonus shares*	*Treasury shares*	*Reserves (Note 22)*	*Subtotal*	*Proposed cash dividends*	*Subtotal*		
Balance as 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 26)	**-**	**-**	**-**	**-**	**(3,282)**	**(3,282)**	**-**	**(3,282)**	**(961)**	**(4,243)**
Restated balance at 1 January 2018	**576,569**	**720,333**	**57,657**	**(45,063)**	**462,819**	**1,772,315**	**96,645**	**1,868,960**	**242,919**	**2,111,879**
Profit for the year	**-**	**-**	**-**	**-**	**227,411**	**227,411**	**-**	**227,411**	**36,113**	**263,524**
Other comprehensive loss	**-**	**-**	**-**	**-**	**(93,924)**	**(93,924)**	**-**	**(93,924)**	**(49,373)**	**(143,297)**
Total comprehensive income (loss)	**-**	**-**	**-**	**-**	**133,487**	**133,487**	**-**	**133,487**	**(13,260)**	**120,227**
Issue of bonus shares (Note 24)	**57,657**	**-**	**(57,657)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Zakat paid	**-**	**-**	**-**	**-**	**(12,578)**	**(12,578)**	**-**	**(12,578)**	**-**	**(12,578)**
Share based payments (Note 25)	**-**	**-**	**-**	**-**	**490**	**490**	**-**	**490**	**-**	**490**
Cash dividends paid	**-**	**-**	**-**	**-**	**-**	**-**	**(96,645)**	**(96,645)**	**-**	**(96,645)**
Distribution of profit: (Note 24)										
Proposed issue of bonus shares	**-**	**-**	**63,423**	**-**	**(63,423)**	**-**	**-**	**-**	**-**	**-**
Proposed cash dividends	**-**	**-**	**-**	**-**	**(125,097)**	**(125,097)**	**125,097**	**-**	**-**	**-**
Net movement in treasury shares	**-**	**-**	**-**	**611**	**211**	**822**	**-**	**822**	**-**	**822**
Deconsolidation of a subsidiary (Note 18)	**-**	**-**	**-**	**-**	**(341)**	**(341)**	**-**	**(341)**	**(43,972)**	**(44,313)**
Disposal of a subsidiary (Note 18)	**-**	**-**	**-**	**-**	**(290)**	**(290)**	**-**	**(290)**	**(955)**	**(1,245)**
Dividends paid to non-controlling interests	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(1,554)**	**(1,554)**
Net other change in non-controlling interests	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(2,913)**	**(2,913)**
Balance as at 31 December 2018	**634,226**	**720,333**	**63,423**	**(44,452)**	**395,278**	**1,768,808**	**125,097**	**1,893,905**	**180,265**	**2,074,170**

The attached notes 1 to 38 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)
For the year ended 31 December 2018

KD 000's

	Attributable to the shareholders of the Bank								*Non-controlling interests*	*Total equity*
	Share capital	*Share premium*	*Proposed issue of bonus shares*	*Treasury shares*	*Reserves (Note 22)*	*Subtotal*	*Proposed cash dividends*	*Subtotal*		
Balance as 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 year	-	-	-	-	184,155	184,155	-	184,155	30,000	214,155
Other comprehensive loss	-	-	-	-	(28,750)	(28,750)	-	(28,750)	(14,041)	(42,791)
Total comprehensive income	-	-	-	-	155,405	155,405	-	155,405	15,959	171,364
Issue of bonus shares	52,415	-	(52,415)	-	-	-	-	-	-	-
Zakat paid	-	-	-	-	(9,682)	(9,682)	-	(9,682)	-	(9,682)
Cash dividends paid	-	-	-	-	-	-	(87,755)	(87,755)	-	(87,755)
Distribution of profit: (Note 24)										
Proposed issue of bonus shares	-	-	57,657	-	(57,657)	-	-	-	-	-
Proposed cash dividends	-	-	-	-	(96,645)	(96,645)	96,645	-	-	-
Net movement in treasury shares	-	-	-	3,761	1	3,762	-	3,762	-	3,762
Disposal of a subsidiary	-	-	-	-	-	-	-	-	(1,434)	(1,434)
Change of ownership interest without loss of control	-	-	-	-	27	27	-	27	4,440	4,467
Net other change in non- controlling interests	-	-	-	-	-	-	-	-	(3,425)	(3,425)
Balance as at 31 December 2017	576,569	720,333	57,657	(45,063)	466,101	1,775,597	96,645	1,872,242	243,880	2,116,122

The attached notes 1 to 38 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2018

	Notes	2018 KD 000's	2017 KD 000's
OPERATING ACTIVITIES			
Profit for the year		**263,524**	214,155
Adjustments to reconcile profit to net cash flows:			
Depreciation and amortisation		**33,404**	34,671
Provisions and impairment		**162,510**	163,411
Dividend income	3	**(4,695)**	(5,345)
Gain on sale of investments	3	**(4,209)**	(47,159)
Gain on sale of real estate investments	3	**(13,963)**	(12,809)
Share of results of investment in associates and joint ventures	3	**(28,192)**	(13,203)
Other investment loss (income)	3	**2,306**	(13,727)
		410,685	319,994
Changes in operating assets and liabilities:			
(Increase) decrease in operating assets:			
Financing receivables and short term murabaha		**(501,547)**	(1,463,612)
Trading properties		**13,489**	10,799
Other assets		**(25,875)**	98,920
Statutory deposit with Central Banks		**239,587**	(151,592)
Increase (decrease) in operating liabilities:			
Due to banks and financial institutions		**318,592**	(319,030)
Depositors' accounts		**183,577**	1,139,678
Other liabilities		**(27,183)**	(2,621)
Net cash flows from (used in) operating activities		**611,325**	(367,464)
INVESTING ACTIVITIES			
Investments, net		**(127,441)**	(290,795)
Purchase of investment properties		**(2,915)**	(7,811)
Proceeds from sale of investment properties		**27,833**	19,542
Purchase of property and equipment		**(46,561)**	(37,825)
Proceeds from sale of property and equipment		**6,042**	1,814
Intangible assets, net		**(6,336)**	(4,859)
Purchase of investments in associates and joint ventures		**(304)**	(770)
Proceeds from sale of investments in associates and joint ventures		**3,857**	31,406
Proceed from disposal of subsidiaries		**34,133**	10,068
Dividend received		**13,711**	15,148
Net cash flows used in investing activities		**(97,981)**	(264,082)
FINANCING ACTIVITIES			
Cash dividends paid		**(96,645)**	(87,755)
Zakat paid		**(12,578)**	(9,682)
Net movement in treasury shares		**822**	3,762
Dividend paid to non-controlling interests		**(1,554)**	-
Net cash flows used in financing activities		**(109,955)**	(93,675)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**403,389**	(725,221)
Cash and cash equivalents as at 1 January		**1,366,890**	2,092,111
CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER	8	**1,770,279**	1,366,890

The attached notes 1 to 38 form part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2018

1 CORPORATE INFORMATION

The consolidated financial statements of the Group for the year ended 31 December 2018 were authorised for issue in accordance with a resolution of the Bank's Board of Directors on 10 January 2019. The general assembly of the shareholders of the Bank has the power to amend these consolidated financial statements after issuance.

The Group comprises Kuwait Finance House K.S.C.P. ("the Bank") and its consolidated subsidiaries (collectively "the Group") as noted in Note 19.1. 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 ("the CBK"). 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.

2.1 BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with the regulations for financial services institutions as issued by the Central Bank of Kuwait ("CBK") in the State of Kuwait. These regulations require expected credit loss ("ECL") to be measured at the higher of the ECL on financing facilities computed under IFRS 9 in accordance to the CBK guidelines or the provisions as required by CBK instructions; the consequent impact on related disclosures; and the adoption of all other requirements of International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board ("IASB").

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

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

2.2 PRESENTATION OF FINANCIAL STATEMENTS

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

2.3 CHANGES IN ACCOUNTING POLICIES

The accounting policies applied are consistent with those used in the previous year except for the adoption of IFRS 9: Financial Instruments and IFRS 15: Revenue from Contracts with Customers.

Adoption of IFRS 9 'Financial Instruments'
The Group has adopted IFRS 9 - Financial Instruments issued in July 2014 with a date of initial application of 1 January 2018, with the exception of requirements of the expected credit losses on financing facilities as noted above in Note 2.1 above. 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.

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 26.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2018

2.3 CHANGES IN ACCOUNTING POLICIES (continued)

Adoption of IFRS 9 'Financial Instruments' (continued)
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 and financial liabilities:
The new standard 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. The IAS 39 measurement categories of financial instruments have been replaced by:

- debt instruments measured at amortised cost,
- debt instruments measured 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; and
- financial assets carried at fair value through profit or loss (FVTPL)

IFRS 9 will also allow entities to continue to irrevocably designate instruments that qualify for amortised cost or FVOCI instruments as FVTPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Equity instruments that are not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to the consolidated statement of income.

The accounting for financial liabilities will largely be the same as the requirements of IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVTPL. Such movements will be presented in OCI with no subsequent reclassification to the statement of income, unless an accounting mismatch in profit or loss would arise.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification. The Group's accounting policies for classification and measurement of financial assets under IFRS 9 is explained in Note 2.6.

The impact of adoption of IFRS 9 is disclosed in Note 26.

Impairment of financial assets:
IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39. The credit losses are based on ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the credit loss is based on the change in ECLs over the life of the asset. The Group is also required to calculate provision for credit losses on financing facilities in accordance with instructions issued by the CBK in respect of the classification of financing facilities and calculation of provisions. Impairment of financing facilities shall be recognised at the higher of ECL under IFRS 9 according to the CBK guidelines, and the provisions required by the CBK instructions.

The Group's accounting policies for impairment of financial assets is explained in Note 2.6. The quantitative impact of adoption of IFRS 9 as at 1 January 2018 is disclosed in Note 26.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2018

2.3 CHANGES IN ACCOUNTING POLICIES (continued)

Adoption of 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. As IFRS 9 does not change the general principles of how an entity accounts for effective hedges, applying the hedging requirements of IFRS 9 has no significant impact on Group's consolidated financial statements.

Adoption of 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 these consolidated financial statements of the Group.

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.

2.4 STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

IFRS 16: Leases
In January 2016, the IASB issued IFRS 16 'Leases' with an effective date of annual periods beginning on or after 1 January 2019 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2018

2.4 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

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

IFRS 16 results in lessees accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases are currently accounted for under IAS 17 'Leases'. Lessees will recognise a 'right of use' asset and a corresponding financial liability on the statement of financial position. The asset will be amortised over the length of the lease and the financial liability measured at amortised cost. Lessor accounting remains substantially the same as in IAS 17.

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

Transition to IFRS 16
The Group plans to adopt IFRS 16 using the modified retrospective method. Applying this method, the comparative information will not be restated. The Group will elect to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Group will therefore not apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

The Group will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The Group has leases of certain office equipment (i.e., personal computers, printing and photocopying machines) that are considered of low value.

During the year, the Group has performed a detailed impact assessment of IFRS 16. Based on detailed impact assessment, property and equipment (right of use) and other liabilities of the Group are expected to increase by KD 33,744 thousand.

2.5 BASIS OF CONSOLIDATION

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2018

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

Associates and joint ventures
Associates are all entities over which the Group has significant influence but not control.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2018

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the financial position date. All differences are included within net gain/loss from foreign currencies in the consolidated statement of income.

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

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

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

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

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

i) Financing income is income from murabaha, istisna'a, leased assets, wakala investments and is determined by using the effective profit method. The effective profit method is a method of calculating the amortised cost of a financial asset and of allocating the financing income over the relevant period.

ii) Fees and commission income is recognised when the Group satisfies the performance obligation by transferring the promised service to customers. At inception of the contract, the Group determines whether it satisfies the performance obligation over a period of time or at a point in time. Fees income earned from services provided over a period of time is recognised over the period of service. Fees and commissions arising from providing a transaction service are recognised at a point in time on completion of the underlying transaction.

iii) Rental income from investment properties is recognised on an accruals basis.

iv) Dividend income is recognised when the right to receive payment is established.

v) Operating lease income is recognised on a straight-line basis in accordance with the lease agreement.

vi) Gain from real estate investments includes gains from sale, transfer and distribution of investment properties, trading properties. Real estate gain is recognised when the significant risks and returns have been transferred to the buyer including satisfaction of all conditions of a contract.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2018

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2018

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

Date of recognition
Financial assets and liabilities, with the exception of financing receivable and depositors' accounts, are initially recognised on the trade date, i.e., the date that the Group becomes a party to the contractual provisions of the instrument. This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Financing to customers are recognised when funds are transferred to the customers' accounts. The Group recognises depositors' accounts when funds are transferred to the Group.

Classification on initial measurement of financial instruments
The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value except in the case of financial assets and financial liabilities recorded at FVTPL, transaction costs are added to, or subtracted from, this amount. Trade receivables are measured at the transaction price. When the fair value of financial instruments at initial recognition differs from the transaction price, the Group accounts for the Day 1 profit or loss, as described below.

Day1 profit or loss
When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Group recognises the difference between the transaction price and fair value in the investment income. In those cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in profit or loss when the inputs become observable, or when the instrument is derecognised.

Measurement categories of financial assets and liabilities
From 1 January 2018, the Group classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:
- Amortised cost
- Fair value through other comprehensive income (FVOCI)
- Fair value through profit or loss (FVTPL)

Before 1 January 2018, the Group classified its financial assets as financing receivables (amortised cost), financial assets available-for-sale (AFS), venture capital at fair value through statement of income, or as derivatives as appropriate.

Financial liabilities, other than financing commitments and financial guarantees, are measured at amortised cost or at FVTPL when they are held for trading and derivative instruments or the fair value designation is applied.

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 FVTPL. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2018

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Assessment of whether contractual cash flows are solely payments of principal and yield (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 payments 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 FVTPL.

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 year.

The Group classifies its financial assets upon initial recognition into the following categories:
- 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 carried at fair value through profit or loss (FVTPL)

Debt instruments at amortised cost:
A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:
- 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 meet the SPPY test.

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

Debt instruments at amortised cost are subsequently measured at amortised cost using the effective yield method adjusted for impairment losses, if any. Profit income, foreign exchange gains and losses and impairment are recognised in the consolidated statement of income. Any gain or loss on derecognition is recognised in the consolidated statement of income.

Debt instruments at FVOCI:
A debt instrument is carried at FVOCI if it meets both of the following conditions:
- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset meet the SPPY test

Debt instruments at FVOCI are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in other comprehensive income. Profit income and foreign exchange gains, losses and ECL are recognised in the consolidated statement of income. 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 income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2018

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Assessment of whether contractual cash flows are solely payments of principal and yield (SPPY test) (continued)
Equity instruments 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 cumulative changes in fair values 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 income. Dividend income on equity investments at FVOCI are recognised in the consolidated statement of income 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 asset at FVTPL:
The Group classifies financial assets 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 FVTPL 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 the consolidated 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.
The Group has determined the classification and measurement of its financial assets as follows:

i. Cash and cash equivalents
Cash and cash equivalents comprise cash, balances with Central Banks, balances with banks and financial institutions, short-term murabaha contracts, cash in transit and exchange of deposits maturing within three months of contract date. Cash and cash equivalents are carried at amortised cost using effective profit rate.

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

iii. Financing receivables
Financing receivables are financial assets with fixed or determinable payments that are not quoted in an active market and principally comprise murabahas, istisna'a, wakala receivables and leased assets. The financing receivables are stated at amortised cost using effective profit rate.

Murabaha
Murabaha is an agreement relating to the sale of commodities at cost plus an agreed upon profit margin, whereby the seller informs the buyer of the price at which the deal will be completed and also the amount of profit to be recognized. Murabaha is a financial asset originated by the Group.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

iii. Financing receivables (continued)

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

Leased assets - the Group as a lessor
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating lease. Leased assets are stated at amortised cost using effective profit rate.

Trade receivable
Trade receivables that primarily relate to subsidiaries in businesses other than financing are carried at amounts due, net of expected credit losses and are stated at amortised cost.

iv. Investments
Group's financial investments consists of investment in Sukuk, equity investments and other investments. Sukuk are classified at FVOCI based on the business model in which these securities are managed. The management of the Group classifies investment in Sukuk as debt instruments at FVOCI. Equity investments are generally carried at FVTPL except for those specific investments for which the Group has made an election to classify at FVOCI. Other investments are carried at FVTPL.

v. Venture capital at fair value through statement of income
Certain investments in joint ventures held directly or indirectly through venture capital segment are not accounted for using equity method, as the Bank has elected to measure these investments at fair value through statement of income in accordance with IFRS 9, using the exemption of IAS 28: Investments in associates and joint ventures.

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

vi. Financial assets available for sale (AFS) - *Policy applicable before 1 January 2018*
Financial assets available for sale include equity investments and debt securities (i.e. Investment in Sukuk). Equity investments classified as available for sale are those, which are neither classified as held for trading nor designated at fair value through consolidated statement of income. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

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

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

Financial liabilities
The Group has determined the classification and measurement of its financial liabilities as follows:

i. Due to banks and depositors' accounts
These are measured at amortised cost.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2018

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities (continued)

iv. Financial guarantees
In the ordinary course of business, the Group issues financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the statement of income, and from 1 January 2018 the higher of ECL under IFRS 9 according to the CBK guidelines, or the provisions required by the CBK.

Undrawn financing commitments and letters of credits are commitments under which, over the duration of the commitment, the group is required to provide a financing with pre-specified terms to the customer. Similar to financial guarantee contracts, under IAS 39, a provision was made if they were an onerous contract and from 1 January 2018 the higher of ECL under IFRS 9 according to the CBK guidelines or the provisions required by the CBK.

De-recognition of financial assets and financial liabilities
A financial asset (or where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2018

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

De-recognition due to substantial modification or terms and conditions
The Group derecognises a financial asset, such as financing receivables, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new financing, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised financing are classified as Stage 1 for ECL measurement purposes, unless the new financing is deemed to be POCI.

When assessing whether or not to derecognise a financing receivable, amongst others, the Group considers the following factors:

- Change in currency of the financing
- Introduction of an equity feature
- Change in counterparty
- If the modification is such that the instrument would no longer meet the SPPY criterion

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at original effective profit rate, the Group records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

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

Derivative financial instruments and hedge accounting
i. Derivatives not designated as hedges:

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

ii. Derivatives designated as hedges:

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

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

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2018

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Derivative financial instruments and hedge accounting (continued)

ii. Derivatives designated as hedges (continued):
Before 1 January 2018, the documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Beginning 1 January 2018, the documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge effectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is 'an economic relationship' between the hedge item and the hedging instrument.
- The effect of the credit risk does not 'dominate the value changes' that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

Hedges that meet all the qualifying criteria for hedge accounting are accounted for, as described below:

Fair value hedges:
The gain or loss on the hedging instrument is recognised in consolidated statement of income while the hedging gain or loss on the hedged item shall adjust the carrying amount of the hedged item, if applicable, and be recognised in consolidated statement of income.

Cash flow hedges:
The effective portion of the gain or loss on the hedging instrument is recognised in the consolidated statement of other comprehensive income, while any ineffective portion is recognised immediately in the consolidated statement of income. The cash flow hedge reserve is adjusted to the lower of cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2018

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Derivative financial instruments and hedge accounting (continued)

iii. Embedded swaps and profit rate contracts:

Embedded swaps and profit rate instruments (the forwards) are separated from the host contract if the economic characteristics and risks of the forwards are not closely related to the economic characteristics and risks of the host contract, a separate instrument with the same terms as the forwards would meet the definition of a derivative.

Embedded swaps and profit rate contracts are being treated as separate instruments and recorded at fair value if they met the definition above, their economic characteristics and risks were not closely related to those of the host contract, and the host contract was not itself held for trading or designated at FVTPL. The embedded swap and profit rate contracts separated from the host were carried at fair value with changes in fair value recognised in the consolidated statement of income.

From 1 January 2018, with the introduction of IFRS 9, the Group accounts in this way for embedded swaps and profit rate contracts in financial liabilities and non-financial host contracts. Financial assets are classified based on the business model and SPPY assessments.

Impairment of financial assets

Policy applicable from 1 January 2018

The Group recognises ECL for financing receivable, short term murabaha, non-cash credit facilities in the form of bank guarantees, letters of guarantee, documentary letters of credit, bank acceptances, undrawn cash and non-cash credit facilities (revocable and irrevocable) (together “financing facilities”) and investment in Sukuk measured at amortised cost or FVOCI.

Balances with CBK and Sukuks issued by CBK and Government of Kuwait is low risk and fully recoverable and hence no ECL is measured. Equity investments are not subject to ECL.

Impairment of financing facilities shall be recognised at the higher of ECL under IFRS 9 according to the CBK guidelines or the provisions required by the CBK instructions (described in policy applicable before 1 January 2018 below).

Expected Credit losses

The Group has established a policy to perform an assessment at the end of each reporting period of whether credit risk has increased significantly since initial recognition by considering the change in the risk of default occurring over the remaining life of the financial instrument.

- To calculate ECL, the Group will estimate the risk of a default occurring on the financial instrument during its expected life. ECLs are estimated based on the present value of all cash shortfalls over the remaining expected life of the financial asset, i.e., the difference between: the contractual cash flows that are due to the Group under the contract, and
- The cash flows that the Group expects to receive, discounted at the effective profit rate of the financing facility.

The Group applies a three-stage approach to measure the ECL based on the applied impairment methodology, as described below:

Stage 1: 12-month ECL

The Group measures loss allowances at an amount equal to 12-month 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.

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 100% of net exposure i.e. after deduction from the amount of exposure value of collaterals determined in accordance with CBK guideline.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2018

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets

Policy applicable from 1 January 2018 (continued)

Expected Credit losses (continued)

Except for consumer and instalment financing, transfer of credit facility from Stage 2 to Stage 1 is made after a period of 12 months from the satisfaction of all conditions that triggered classification of the financial assets to Stage 2. Transfer of financial assets from Stage 3 to Stage 2 or Stage 1 is subject to approval of CBK.

For financial assets for which the Group has no reasonable expectations of recovering either the entire outstanding amount, or a portion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the asset.

When estimating lifetime ECL for undrawn financing commitments, the Group estimates the expected portion of the financing commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the financing is drawn down. The expected cash shortfalls are discounted at an approximation to the expected effective profit rate on the financing.

The Group's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortization recognised in statement of income, and the ECL under IFRS 9 according to CBK guidelines. For this purposes, the Group estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by the risk-adjusted profit rate relevant to the exposure.

Life time ECL is ECL that result from all possible default events over the expected life of a financial instrument. The 12 month ECL is the portion of life time expected credit loss that result from default events that are possible within the 12 months after the reporting date. Both life time ECLs 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 of impairment

The Group continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12-month ECL or Lifetime ECL, the Group assesses whether there has been a significant increase in credit risk since initial recognition and backstop indicators and analysis based on the Group's historical experience and expert credit risk assessment, including forward-looking information. The Group considers an exposure to have significantly increased in credit risk when there is significant deterioration in customer rating compared to rating at origination, restructured due to financial difficulties of the customers and other conditions mentioned below.

The Group also applies a secondary qualitative method for triggering a significant increase in credit risk for financial assets, such as moving a customer/facility to the watch list, or the account becoming forborne. In certain cases, the Group may also consider that events explained below (and not restricted to) are indicators of significant increase in credit risk as opposed to a default.

- Internal rating of the customer indicating default or near-default
- The customer requesting emergency funding from the Group;
- The customer having past due liabilities to public creditors or employees;
- The customer is deceased;
- A material decrease in the underlying collateral value where the recovery of the financing is expected from the sale of the collateral;
- A material decrease in the customer's turnover, loss of major customers or deterioration of customer financial position;
- A covenant breach not waived by the Group;
- The obligor (or any legal entity within the obligor's group) filing for bankruptcy application / protection or liquidation;
- Obligor's listed debt or equity suspended at the primary exchange because of rumours or facts about financial difficulties;
- Legal measures and action against customer by other creditors;
- Clear evidence that the customer is unable to pay financing receivable on maturity dates;
- Financial assets are classified under Stage 2 when there has been a downgrade in the facility's credit rating by 2 grades for the facilities with Investment Grade and by 1 grade for those with Non-Investment Grade;
- All rescheduled financial assets are classified under the Stage 2 unless it qualifies for Stage 3 classification.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2018

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Policy applicable from 1 January 2018 (continued)

Expected Credit losses (continued)

Determining the stage of impairment (continued)
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 more than 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.

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

Objective evidence that financial assets 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 financial asset and collectively for others not deemed individually significant.

Measurement of ECLs
ECLs are probability weighted estimates of credit losses and are measured as the present value of all cash shortfalls discounted at the effective profit rate of the financial instrument. Cash shortfall represent the difference between cashflows due to the Group in accordance with the contract and the cashflows that the Group expects to receive. The key elements in the measurement of ECL include probability of default, loss given default and exposure at default.

- The Probability of Default ("PD") is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the financial asset has not been previously derecognized and is still in the portfolio. The Group uses point in time PD (PITPD) for each rating to calculate the ECL. The minimum PD is 1% for Non-Investment Grade facilities and 0.75% for Investment Grade financing facilities except for financing facilities granted to Government and Banks rated as Investment Grade by an external rating agency and financing transactions related to consumer and housing financing (except for credit cards).
- The Exposure at Default ("EAD") is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including payments of principal and profit, whether scheduled by contract or otherwise, expected drawdowns on committed facilities. As per CBK requirements, the Group applies 100% Credit Conversion Factor (CCF) on utilized cash and non-cash facilities. For unutilized facilities CCF is applied based on the CBK requirements for leverage ratio issued on 21 October 2014.
- The Loss Given Default ("LGD") is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the financier would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD. CBK guidelines have prescribed list of eligible collaterals and minimum hair-cuts that are applied in determination of LGD.

Further, as per CBK guidelines, for unsecured senior and subordinate financing facilities minimum LGD threshold applied is 50% and 75% respectively.

The maximum period for which the credit losses are determined is the contractual life of a financial asset, including credit cards and other revolving facilities unless the Group has the legal right to call it earlier except for financial assets in Stage 2, the Group considers a minimum maturity of 7 years for all financing facilities (excluding consumer financing, credit cards and personal housing financing which is regulated by CBK based on salary) unless financing facilities have non-extendable contractual maturity and final payment is less than 50% of the total facility extended. For consumer financings & credit cards and personal housing financings which is regulated by CBK based on salary in Stage 2, the Group considers minimum maturity of 5 years and 15 years respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2018

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Policy applicable from 1 January 2018 (continued)

Expected Credit losses (continued)

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, unemployment rates, Central Bank base rates, oil prices, 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.

Renegotiated financing receivables
In the event of a default, the Group seeks to restructure financing to customers rather than take possession of collateral. This may involve extending the payment arrangements and the agreement of new financing conditions. When the financing to customers has been renegotiated or modified but not derecognised, any impairment is measured using the original effective yield method as calculated before the modification of terms. Management continually reviews renegotiated financing to ensure that all criteria are met and that future payments are likely to occur. Management also assesses whether there has been significant increase in credit risk or the facility should be classified in stage 3.

Presentation of allowance for ECL in the 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 ECL charge in the consolidated statement of income and a corresponding amount is recognised in other comprehensive income with no reduction in the carrying amount of the financial asset in the consolidated statement of financial position.

Write-offs
The Group’s accounting policy under IFRS 9 remains the same as it was under IAS 39. Financial assets are written off either partially or in their entirety only when the Group has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

Policy applicable before 1 January 2018
The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred ‘loss event’) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2018

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Policy applicable from 1 January 2018 (continued)

Expected Credit losses (continued)

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

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

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

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

Provisions for credit losses in accordance with CBK instructions
The Group is required to calculate provisions for credit losses on financing receivables in accordance with the instructions of CBK on the classification of financing receivables and calculation of provisions. Financing receivables are classified as past due when a payment has not been received on its contractual payment date or if the facility is in excess of pre-approved limits. A financing receivable is classified as past due and impaired when the profit or a principal instalment is past due for more than 90 days and if the carrying amount of the facility is greater than its estimated recoverable value. Past due and past due and impaired financing receivables are managed and monitored as irregular facilities and are classified into the following four categories which are then used to determine the provisions.

Category	*Criteria*	*Specific provisions*
Watch list	Irregular for a period of 90 days	-
Substandard	Irregular for a period of 91- 180 days	20%
Doubtful	Irregular for a period of 181- 365 days	50%
Bad	Irregular for a period exceeding 365 days	100%

The Group may also include a credit facility in one of the above categories based on management's judgement of a customer's financial and/or non-financial circumstances.

In addition to specific provisions, minimum general provisions of 1% on cash facilities and 0.5% on non-cash facilities are made on all applicable financing receivables (net of certain restricted categories of collateral) which are not subject to specific provisioning.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2018

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions for credit losses in accordance with CBK instructions (continued)

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

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

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

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

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

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

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

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

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

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

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

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At 31 December 2018

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

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

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

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

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2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)
Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired.

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

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

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2018

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

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

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

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

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2018

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

Classification of financial assets - applicable from 1 January 2018
The Group determines the classification of financial assets based on the assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and profit on the principal amount outstanding.

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

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

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

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

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

Impairment of financial assets available for sale - applicable before 1 January 2018
The Group treats financial assets available for sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgement. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2018

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Impairment of investment in associates and joint ventures
The Group calculates the amount of impairment as the difference between the recoverable amount and its carrying value if there is any objective evidence that the investment in associates or joint ventures are impaired. The estimation of recoverable amount requires the Group to make an estimate of the expected future cash flows and selection of appropriate inputs for valuation.

Impairment of investment properties and trading properties:
The Group reviews the carrying amounts of its investment and trading properties to determine whether there is an indication that those assets have suffered an impairment loss if the fair values are below than the carrying values. The Group management determines the main appropriate techniques and inputs required for measuring the fair value using observable market data and as appropriate, the Group uses reputed valuers qualified to do the valuation.

Impairment of financial instruments - applicable from 1 January 2018
The measurement of impairment losses both under IFRS 9 and IAS 39 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Group's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their dependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Group's internal credit rating model, which assigns PDs to the individual grades
- The Group's criterial for assessing if there has been a significant increase in credit risk so allowances for financial assets should be measured on a lifetime ECL basis and qualitative assessment
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including various formulas and choice of inputs
- Determination of associations between macroeconomic scenarios and, economic inputs, and the effect on PDs, EADs and LGDs
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

The Group has the policy to regularly review its models in the context of actual loss experience and adjust when necessary.

Impairment losses on finance facilities – applicable before 1 January 2018
The Group reviews its finance facilities on a quarterly basis to assess whether a provision for impairment should be recorded in the consolidated statement of income. In particular, considerable judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Estimation uncertainty (continued)

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

3 INVESTMENT INCOME

	KD 000's	
	2018	*2017*
Gain on sale of real estate investments	**13,963**	12,809
Rental income from investment properties	**14,566**	14,328
Dividend income	**4,695**	5,345
Gain on sale of investments	**4,209**	47,159
Share of results of investment in associates and joint ventures (Note 13 and Note 14)	**28,192**	13,203
Others	**(2,306)**	13,727
	63,319	106,571

4 OTHER INCOME

	KD 000's	
	2018	*2017*
Income from sale of property and equipment	**8,540**	3,193
Real estate trading, development and construction income	**3,781**	8,061
Income from maintenance, services and consultancy	**11,491**	12,198
Rental income from operating lease	**8,039**	7,647
Other income	**6,665**	16,542
	38,516	47,641

5 PROVISIONS AND IMPAIRMENT

	KD 000's	
	2018	*2017*
Expected credit losses for investment in Sukuk (Note 11)	**5,662**	-
Expected credit losses for other financial assets	**8,344**	-
Impairment on financing receivables (Note 10)	**87,835**	90,910
Recovery of written-off debts	**(28,082)**	(22,735)
Impairment of financial assets available for sale	**-**	16,768
Impairment of associates and joint ventures	**-**	1,407
Impairment of investment properties* (Note 15)	**71,117**	15,160
Impairment of property and equipment	**1,141**	-
Impairment of intangible assets and goodwill (Note 17)	**-**	73
(Reversal) impairment of non-cash facilities (Note 10)	**(2,875)**	15,183
Impairment of trading properties	**240**	2,581
Impairment of other assets and other provisions	**19,128**	44,064
	162,510	163,411

* During the year, full impairment against certain real estate investments in GCC amounting to KD 63,779 thousand was recorded due to uncertainty in the recoverable amount in view of market outlook.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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6 TAXATION

	KD 000's	
	2018	2017
Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)	**2,210**	1,774
National Labour Support Tax (NLST)	**4,078**	4,008
Zakat (based on Zakat Law No. 46/2006)	**2,223**	1,950
Taxation related to subsidiaries	**18,471**	21,858
	26,982	29,590

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

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

Basic and diluted earnings per share:	**2018**	2017
Profit for the year attributable to shareholders of the Bank (thousand KD)	**227,411**	184,155
Weighted average number of shares outstanding during the year (thousands share)	**6,253,871**	6,251,187
Basic and diluted earnings per share attributable to the shareholders of the Bank	**36.36 fils**	29.46 fils

Basic and diluted earnings per share from continuing operations:	**2018**	2017
Profit for the year from continuing operations attributable to shareholders of the Bank (thousand KD)	**222,825**	185,234
Weighted average number of shares outstanding during the year (thousands share)	**6,253,871**	6,251,187
Basic and diluted earnings per share from continuing operation attributable to the shareholders of the Bank	**35.63 fils**	29.63 fils

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

The comparative basic and diluted earnings per share have been restated for bonus shares issued (Note 24).

8 CASH AND BALANCES WITH BANKS

	KD 000's	
	2018	2017
Cash	**218,746**	258,590
Balances with Central Banks	**701,407**	591,716
Balances with banks and financial institutions – current accounts	**461,017**	412,150
Cash and balances with banks and financial institutions	**1,381,170**	1,262,456
Short-term murabaha maturing within 3 months of contract date	**865,624**	805,930
Cash with banks attributable to discontinued operation (Note 18)	**-**	14,606
Less: Statutory deposits with Central Banks	**(476,515)**	(716,102)
Cash and cash equivalents	**1,770,279**	1,366,890

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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9 SHORT-TERM MURABAHA

	KD 000's	
	2018	2017
Short-term murabaha with banks	**1,133,976**	836,525
Short-term murabaha with Central Banks	**2,114,474**	2,088,804
	3,248,450	2,925,329

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

10 FINANCING RECEIVABLES

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

	KD 000's	
	2018	2017
Financing receivables		
Murabaha and wakala	**8,973,191**	8,999,840
Leased assets	**1,972,101**	1,847,974
Istisna'a and other receivables	**89,306**	102,687
	11,034,598	10,950,501
Less: deferred and suspended profit	**(1,274,941)**	(1,289,618)
Net receivables	**9,759,657**	9,660,883
Less: impairment	**(374,183)**	(444,408)
	9,385,474	9,216,475

	KD 000's					
	Specific		General		Total	
	2018	2017	**2018**	2017	**2018**	2017
Balance as at beginning of year	**166,713**	228,090	**277,695**	297,676	**444,408**	525,766
Provided during the year (Note 5)	**78,182**	106,834	**9,653**	(15,924)	**87,835**	90,910
Amounts written off and foreign currency translation	**(148,927)**	(168,211)	**(9,133)**	(4,057)	**(158,060)**	(172,268)
Balance as at end of year	**95,968**	166,713	**278,215**	277,695	**374,183**	444,408

Reversal of provision for the year on non- cash facilities is KD (2,875) thousand (2017: charge of KD 15,183 thousand) (Note 5). The available provision balance on non-cash facilities of KD 42,260 thousand (2017: KD 46,341 thousand) is included under other liabilities (Note 21).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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10 FINANCING RECEIVABLES (continued)

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

	KD 000's	
	2018	*2017*
Within one year	**996,148**	977,436
One to five years	**349,464**	334,850
More than five years	**626,489**	535,688
	1,972,101	1,847,974

Non-performing financing facilities
As at 31 December 2018, non-performing cash finance facilities before impairment and collateral (net of deferred profit and suspended profit) amounted to KD 217,758 thousand (2017: KD 276,224 thousand).

The Expected Credit Losses for financing receivables as per CBK instructions for utilized and unutilized cash and non-cash financing facilities as at 31 December 2018 is KD 372,868 thousand which is lower than total provision for credit losses recorded as per CBK instructions of KD 416,443 thousand.

11 INVESTMENT IN SUKUK

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's internal credit rating system and year-end stage classification.

				KD 000's
2018	***Stage 1 Individual***	***Stage 2 Individual***	***Stage 3 Individual***	***Total***
High grade	**1,366,246**	**-**	**-**	**1,366,246**
Standard grade	**204,304**	**-**	**-**	**204,304**
Gross carrying amount	**1,570,550**	**-**	**-**	**1,570,550**
ECL allowance	**(7,189)**	**-**	**-**	**(7,189)**
Carrying value	**1,563,361**	**-**	**-**	**1,563,361**

Movement in the gross carrying amount and the corresponding expected credit losses in relation to the Group's investment in Sukuk carried at fair value through other comprehensive income is as follows:

				KD 000's
2018	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Gross carrying amount as at 1 January 2018	**1,418,033**	**-**	**1,308**	**1,419,341**
Net movement during the year	**152,517**	**-**	**(1,308)**	**151,209**
At 31 December 2018	**1,570,550**	**-**	**-**	**1,570,550**

				KD 000's
	Stage 1	***Stage 2***	***Stage 3***	***Total***
ECL allowance as at 1 January 2018	**1,527**	**-**	**1,308**	**2,835**
Re-measurements during the year (Note 5)	**5,662**	**-**	**-**	**5,662**
Amounts written off	**-**	**-**	**(1,308)**	**(1,308)**
At 31 December 2018	**7,189**	**-**	**-**	**7,189**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2018

12 INVESTMENTS

	KD 000's	
	2018	*2017*
Managed portfolios *	**58,082**	70,556
Unquoted equity investments	**98,074**	96,966
Venture capital at fair value through statement of income	**29,932**	39,648
Mutual funds	**65,506**	71,448
Quoted equity investments	**33,289**	25,675
	284,883	304,293
Financial assets at fair value through profit or loss	**161,906**	-
Financial assets at fair value through other comprehensive income	**93,045**	-
Financial assets available for sale at fair value	-	168,143
Financial assets available for sale carried at cost less impairment	-	96,502
Venture capital at fair value through statement of income	**29,932**	39,648
	284,883	304,293

* Included in managed portfolios amount of KD 31,691 thousand (2017: KD 55,301 thousand) which represents the Bank's investment in 51,953 thousand shares (2017: 96,008 thousand shares) of the Bank on behalf of depositors, equivalent to 0.82% of the total issued share capital at 31 December 2018 (2017: 1.67%). The results from activities relating to dealing in these shares are attributed only to the depositors, and hence these shares are classified under investments.

13 INVESTMENT IN ASSOCIATES

The major associates of the Group are as follows:

	Interest in equity %		*Country of registration*	*Principal activities*	*Financial statements reporting date*
	2018	*2017*			
Sharjah Islamic Bank P.J.S.C.	**18**	18	United Arab Emirates	Islamic banking services	30 September 2018
Ibdar Bank B.S.C.	**35**	40	Bahrain	Islamic banking service	30 September 2018
Aviation Lease and Finance Company K.S.C.P. (ALAFCO)	**46**	46	Kuwait	Aircraft leasing and financing services	30 September 2018

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

Summarised consolidated statement of financial position:

	KD 000's	
	2018	*2017*
Assets	**5,607,341**	4,627,720
Liabilities	**(4,546,119)**	(3,618,076)
Equity	**1,061,222**	1,009,644
Carrying amount of the investment	**296,203**	288,598

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13 INVESTMENT IN ASSOCIATES (continued)

Summarised consolidated statement of income:

	KD 000's	
	2018	2017
Revenues	**323,215**	356,354
Expenses	**(244,429)**	(302,336)
Profit for the year	**78,786**	54,018
Group's share of profit for the year	**24,039**	4,795

Investments in associates with a carrying amount of KD 242,802 thousand (2017: KD 236,492 thousand) have a market value of KD 217,607 thousand at 31 December 2018 (2017: KD 235,197 thousand) based on published quotes.

Dividends received from the associates during the current year amounted to KD 7,911 thousand (2017: KD 3,288 thousand).

14 INVESTMENT IN JOINT VENTURES

The major joint ventures of the Group are as follows:

	Interest in equity %		Country of registration	Principal activities	Financial statements reporting date
	2018	2017			
Diyar Homes Company W.L.L (Souq Al Muharraq)	**50**	50	Bahrain	Real estate development	31 October 2018
Al Durrat Al Tijaria Company W.L.L	**50**	50	Bahrain	Real estate development	31 October 2018
Diyar Al Muharraq Company W.L.L.	**52**	52	Bahrain	Real estate development	31 October 2018

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

Summarised consolidated statement of financial position:

	KD 000's	
	2018	2017
Assets	**983,997**	863,529
Liabilities	**(540,048)**	(482,728)
Equity	**443,949**	380,801
Carrying amount of the investment	**202,976**	175,199

Summarised consolidated statement of income:

	KD 000's	
	2018	2017
Revenues	**41,779**	80,240
Expenses	**(34,184)**	(63,947)
Profit for the year	**7,595**	16,293
Group's share of profit for the year	**4,153**	8,408

Dividends received from the joint ventures during the current year amounted to KD 1,105 thousand (2017: KD 2,207).

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15 INVESTMENT PROPERTIES

	KD 000's	
	2018	2017
As at 1 January	**554,321**	590,801
Additions	**2,915**	7,811
Transfer from/ to other assets and trading properties	**29,306**	(1,377)
Disposals	**(18,996)**	(20,821)
Depreciation charge for the year	**(6,820)**	(6,933)
Impairment (Note 5)	**(71,117)**	(15,160)
As at 31 December	**489,609**	554,321

	KD 000's	
	2018	2017
Developed properties	**375,106**	421,854
Properties under construction	**114,503**	132,467
	489,609	554,321

16 OTHER ASSETS

	KD 000's	
	2018	2017
Precious metals inventory	**38,080**	31,776
Trade receivable, net	**79,576**	100,013
Clearing accounts	**176,027**	102,828
Receivables on sale of investment	**34,389**	22,601
Deferred tax	**34,005**	24,564
Advances and prepayments	**48,552**	76,222
Other miscellaneous assets	**133,787**	106,554
	544,416	464,558

17 INTANGIBLE ASSETS AND GOODWILL

	KD 000's	
	2018	2017
Intangible assets	**30,888**	32,010
Goodwill	**292**	6,649
	31,180	38,659

Movement of intangible assets is as follows:

	KD 000's	
	2018	2017
Cost		
As at 1 January	**74,499**	71,588
Additions	**7,248**	6,596
Disposal	**-**	(2,090)
Foreign exchange translation	**(6,194)**	(1,595)
As at 31 December	**75,553**	74,499

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17 INTANGIBLE ASSETS AND GOODWILL (continued)

	KD 000's	
	2018	*2017*
Accumulated amortization		
As at 1 January	**42,489**	39,135
Charge for the year	**5,012**	4,290
Disposals	**-**	(541)
Foreign exchange translation	**(2,836)**	(395)
As at 31 December	**44,665**	42,489
Net book value		
As at 31 December	**30,888**	32,010

Intangible asset include license of an Islamic brokerage company amounting to KD 14,671 thousand (2017: KD 14,671 thousand) and is considered as an intangible asset with an indefinite useful life. The carrying value of the Islamic brokerage license is tested for impairment on an annual basis by estimating the recoverable amount of the cash generating unit (CGU). The recoverable amount of the license has been determined using a discount rate of 9.1% (2017: 10.12%) and a terminal growth rate of 3.0% (2017: 3.3%). As a result, the management believes there are no indications of any impairment in value. Other intangible assets amounting to KD 16,217 thousand (2017: KD 17,339 thousand) represent software development cost, software license right and other rights with finite useful lives. Intangible assets with finite lives are amortised over their useful economic life.

18 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 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 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 year, Group sold its interest in New Technology Bottling Company K.S.C (Closed) (NTBC), an indirect subsidiary of the Bank.

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19 SUBSIDIARIES

19.1 Details of principal operating material subsidiaries

Name	*Country of registration*	*Interest in equity %*		*Principal activity*	*Financial statements reporting date*
		2018	*2017*		
Kuwait Turkish Participation Bank	Turkey	**62**	62	Islamic banking services	31 December 2018
Kuwait Finance House B.S.C.	Bahrain	**100**	100	Islamic banking services	31 December 2018
Kuwait Finance House (Malaysia) Berhad	Malaysia	**100**	100	Islamic banking services	31 December 2018
Saudi Kuwait Finance House S.S.C. (Closed)	Saudi Arabia	**100**	100	Islamic investment	31 December 2018
KFH Capital Investments Company K.S.C. (Closed)*	Kuwait	**99.9**	99.9	Islamic finance and investments	31 October 2018
KFH Private Equity Ltd	Cayman Islands	**100**	100	Islamic investments	31 December 2018
KFH Real Estate Company K.S.C. (Closed) *	Kuwait	**99.9**	99.9	Real estate development and leasing	31 October 2018
Al Enma'a Real Estate Company K.S.C.P.	Kuwait	**56**	56	Real estate, investment, trading and real estate management	31 October 2018
Development Enterprises Holding Company K.S.C. (Closed) *	Kuwait	**99.9**	99.9	Infrastructure and industrial investment	31 December 2018
Baitak Real Estate Investment Company S.S.C.	Saudi Arabia	**100**	100	Real estate development and investment	30 September 2018
International Turnkey Systems Company K.S.C. (Closed)	Kuwait	**97**	97	Computer maintenance, consultancy and software services	30 September 2018
Gulf International Automobile Trading Company K.S.C. (Closed) *	Kuwait	**99.6**	99.6	Trading, import and export of used cars	30 September 2018
E'amar	Cayman Islands	**100**	100	Islamic investments	31 December 2018
Al Salam Hospital K.S.C. (Closed)	Kuwait	**76**	76	Healthcare services	30 September 2018
Muthana GCC Islamic Banks Fund	Kuwait	**92**	91	Islamic equity investments	30 September 2018
Muthana Islamic Index Fund	Kuwait	**20**	30	Islamic equity investments	30 September 2018

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19 SUBSIDIARIES (continued)

19.1 Details of principal operating material subsidiaries (continued)

Name	*Country of registration*	*Interest in equity %*		*Principal activity*	*Financial statements reporting date*
		2018	*2017*		
Turkapital Holding B.S.C.(C)	Bahrain	**51**	51	Real estate, auto leasing and insurance	30 September 2018

** Effective ownership percentage is 100% (2017: 100%).*

19.2 Material partly-owned subsidiary

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

Proportion of equity interest held by non-controlling interests:

	Country of incorporation & operation	*Non controlling interest percentage*	
		2018	*2017*
Kuwait Turkish Participation Bank	Turkey	**38%**	38%

The summarised financial information of the subsidiary is provided below. This information is based on amounts before intra Group eliminations and adjustments.

Summarised consolidated statement of income for the year ended:

	KD 000's	
	2018	*2017*
Revenues	**427,068**	373,898
Expenses	**(322,082)**	(315,552)
Profit for the year	**104,986**	58,346
Attributable to non-controlling interests	**39,643**	22,031

Summarised consolidated statement of financial position as at:

	KD 000's	
	2018	*2017*
Total assets	**4,302,308**	4,520,545
Total liabilities	**(3,932,558)**	(4,139,073)
Total equity	**369,750**	381,472
Attributable to non-controlling interests	**139,618**	144,044

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19 SUBSIDIARIES (continued)

19.2 Details of principal operating material subsidiaries (continued)

Summarised consolidated statement of cash flows for year ended:

	KD 000's	
	2018	*2017*
Operating	**216,532**	(32,561)
Investing	**780**	(72,793)
Financing	**(116,707)**	4,520
Net increase (decrease) in cash and cash equivalents	**100,605**	(100,834)

20 DEPOSITORS' ACCOUNTS

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

1) Non-investment deposits in the form of current accounts: These deposits are not entitled to any profits nor do they bear any risk of loss as the Bank guarantees to pay the related balances on demand. Accordingly, these deposits are considered Qard Hasan from depositors to the Bank under Islamic Shari'a.

2) Investment deposits: These have fixed maturity as specified in the term of the contract and are automatically renewable for the same periods unless notified to the contrary in writing by the depositor. Investment savings accounts are valid for an unlimited period.

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

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

21 OTHER LIABILITIES

	KD 000's	
	2018	*2017*
Trade payables	**163,521**	162,336
Accrued expenses	**147,679**	147,059
Certified cheques	**60,218**	48,613
Due to customers for contract work	**35,811**	29,877
Maintenance and other reserve	**77,156**	96,052
Employees' end of service benefits	**73,478**	71,905
Refundable deposits	**6,309**	8,097
Provision on non cash facilities (Note 10)	**42,260**	46,341
Other miscellaneous liabilities	**121,699**	88,956
	728,131	699,236

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22 RESERVES

KD 000's

	Statutory reserve	*Voluntary reserve*	*Retained earnings*	*Treasury shares reserve*	*Fair value reserve*	*Foreign exchange translation reserve*	*Other reserves*	***Total***
Balance as 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 26)	-	-	**8,208**	-	**(11,490)**	-	-	**(3,282)**
Restated balance at 1 January 2018	**274,841**	**274,841**	**96,924**	**6,736**	**7,661**	**(163,822)**	**(34,362)**	**462,819**
Profit for the year	-	-	**227,411**	-	-	-	-	**227,411**
Other comprehensive loss	-	-	-	-	**(20,084)**	**(73,840)**	-	**(93,924)**
Total comprehensive income (loss)	-	-	**227,411**	-	**(20,084)**	**(73,840)**	-	**133,487**
Zakat paid	-	-	**(12,578)**	-	-	-	-	**(12,578)**
Transfer to reserves	**23,686**	**23,686**	**(47,372)**	-	-	-	-	-
Proposed issuance of bonus shares (Note 24)	-	-	**(63,423)**	-	-	-	-	**(63,423)**
Proposed cash dividends (Note 24)	-	-	**(125,097)**	-	-	-	-	**(125,097)**
Share based payments (Note 25)	-	-	-	-	-	-	**490**	**490**
Deconsolidation of a subsidiary (Note 18)	-	-	**(10,938)**	-	**(2,292)**	**(341)**	**13,230**	**(341)**
Disposal of a subsidiary	-	-	-	-	-	**(290)**	-	**(290)**
Net movement in treasury shares	-	-	-	**211**	-	-	-	**211**
Balance as at 31 December 2018	**298,527**	**298,527**	**64,927**	**6,947**	**(14,715)**	**(238,293)**	**(20,642)**	**395,278**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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22 RESERVES (continued)

KD 000's

	Statutory reserve	*Voluntary reserve*	*Retained earnings*	*Treasury shares reserve*	*Fair value reserve*	*Foreign exchange translation reserve*	*Other reserves*	*Total*
Balance as at 1 January 2017	255,564	255,564	107,099	6,735	25,728	(141,649)	(34,389)	474,652
Profit for the year	-	-	184,155	-	-	-	-	184,155
Other comprehensive loss	-	-	-	-	(6,577)	(22,173)	-	(28,750)
Total comprehensive income (loss)	-	-	184,155	-	(6,577)	(22,173)	-	155,405
Zakat paid	-	-	(9,682)	-	-	-	-	(9,682)
Transfer to reserves	19,277	19,277	(38,554)	-	-	-	-	-
Proposed issuance of bonus shares (Note 24)	-	-	(57,657)	-	-	-	-	(57,657)
Proposed cash dividends (Note 24)	-	-	(96,645)	-	-	-	-	(96,645)
Change of ownership interest without loss of control	-	-	-	-	-	-	27	27
Net movement in treasury shares	-	-	-	1	-	-	-	1
Balance as at 31 December 2017	274,841	274,841	88,716	6,736	19,151	(163,822)	(34,362)	466,101

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22 RESERVES (continued)

Statutory reserve
In accordance with the Companies' Law, as amended, and the Bank's Memorandum of Incorporation and Articles of Association, as amended, a minimum of 10% of the profit for the year before tax and board of directors' remuneration shall be transferred to the statutory reserve. The annual general assembly of the Bank may resolve to discontinue such transfer when the reserve exceeds 50% of the issued share capital. The reserve may only be used to offset losses or enable the payment of a dividend up to 5% of paid-up share capital in years when profit is not sufficient for the payment of such dividend due to absence of distributable reserves. Any amounts deducted from the reserve shall be refunded when the profits in the following years suffice, unless such reserve exceeds 50% of the issued share capital.

Voluntary reserve
In accordance with the Companies' Law, as amended, and the Bank's Memorandum of Incorporation and Articles of Association, as amended, a maximum of 10% of the profit for the year before tax and board of directors' remuneration is required to be transferred to the voluntary reserve. Such annual transfers may be discontinued by a resolution of the shareholders' general assembly upon a recommendation by the Board of Directors. There are no restrictions on the distribution of this reserve.

Voluntary reserve is available to be distributed to shareholders at the discretion of the general assembly in ways that may be deemed beneficial to the Bank, except for the amount of KD 44,452 thousand (2017: KD 45,063 thousand) which is equivalent to the cost of purchasing treasury shares, and is not available for distribution throughout the holding period of the treasury shares (Note 23).

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

The share premium balance is not available for distribution.

Foreign currency translation reserve and other reserve are attributable to both shareholders and deposit account holders.

23 SHARE CAPITAL AND TREASURY SHARES

The ordinary general assembly of the shareholders of the Bank held on 19 March 2018 approved 10% bonus shares on outstanding shares amounting to KD 57,657 thousand for the year ended 31 December 2017 (Note 24).

Share capital

	KD 000's	
	2018	*2017*
Authorized, issued and fully paid in cash and bonus shares:		
6,342,262,911 (2017: 5,765,693,556) shares of 100 fils each	**634,226**	576,569

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

	2018	*2017*
Number of shares in issue as at 1 January	**5,765,693,556**	5,241,539,597
Bonus shares issued	**576,569,355**	524,153,959
Number of shares in issue 31 December	**6,342,262,911**	5,765,693,556

Treasury shares and treasury share reserve.
The Group held the following treasury shares at the year-end:

	2018	*2017*
Number of treasury shares	**87,436,110**	80,699,163
Treasury shares as a percentage of total shares in issue	**1.38%**	1.40%
Cost of treasury shares (KD)	**44,451,503**	45,062,788
Market value of treasury shares (KD)	**53,336,027**	46,482,718

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

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23 SHARE CAPITAL AND TREASURY SHARES (continued)

An amount of KD 44,452 thousand (31 December 2017: KD 45,063 thousand) equivalent to the cost of purchase of the treasury shares have been earmarked as non-distributable from voluntary reserve throughout the holding period of treasury shares.

The weighted average market price of the Bank's shares for the year ended 31 December 2018 was 587 fils (2017: 566 fils) per share.

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

The Board of Directors of the Bank has proposed a cash dividend of 20% for the year ended 31 December 2018 (2017: 17%) and issuance of bonus shares of 10% (2017: 10%) of paid up share capital as follows:

	2018		*2017*	
		Total KD 000's		*Total KD 000's*
Proposed cash dividends (per share)	**20** fils	**125,097**	17 fils	96,645
Proposed issuance of bonus shares (per 100 shares)	**10** shares	**63,423**	10 shares	57,657

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

The Board of Directors of the Bank has proposed Directors' fees of KD 942 thousand (2017: KD 878 thousand), (Note 29) are within the amount permissible under local regulations and are subject to approval by the annual general assembly of the shareholders of the Bank.

25 SHARE BASED PAYMENTS

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

26 IMPACT OF IFRS 9 ADOPTION

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.
- The designation of certain financial assets as measured at Amortised Cost.

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26 IMPACT OF IFRS 9 ADOPTION (continued)

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:

	KD 000's	
	Retained earnings	*Fair value reserve*
Closing balance under IAS 39 (31 December 2017)	**88,716**	**19,151**
Impact on reclassification and re-measurements:		
Investment securities (debt and equity) from available-for-sale to FVPL	**15,883**	**(15,883)**
Investment securities (equity) from available-for-sale to FVOCI	**-**	**4,393**
IFRS 9 adjustment on investment in associates	**(4,565)**	**-**
	11,318	**(11,490)**
Impact on recognition of Expected Credit Losses (ECL) other than financing receivable:		
ECL under IFRS 9 for investment in Sukuk at FVOCI	**(1,301)**	**-**
ECL under IFRS 9 on other financial assets	**(1,809)**	**-**
	(3,110)	**-**
Opening balance under IFRS 9 on date of initial application of 1 January 2018	**96,924**	**7,661**

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.

					KD000's
IAS 39	***31 December 2017***	**IFRS 9**	***31 December 2017***	***Re-measurement***	***1 January 2018***
Equities					
		FVPL	**182,235**	**-**	**182,235**
Financial assets available for sale	**264,645**	FVOCI	**82,410**	**4,393**	**86,803**
		Total	**264,645**	**4,393**	**269,038**
Investment in Sukuk					
Classified as financial assets available for sale	**1,428,655**	FVOCI	**1,418,033**	**(1,527)**	**1,416,506**
		FVPL	**10,622**	**-**	**10,622**
			1,428,655	**(1,527)**	**1,427,128**

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26 IMPACT OF IFRS 9 ADOPTION (continued)

Impairment allowances

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

	KD 000's			
	31 December 2017	*Re-classification*	*Re-measurements*	*1 January 2018*
Impairment allowance for:				
Investment in Sukuks	**1,308**	**-**	**1,527**	**2,835**
Other financial assets	**-**	**-**	**1,809**	**1,809**

27 CONTINGENCIES AND CAPITAL COMMITMENTS

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

	KD 000's	
	2018	*2017*
Acceptances and letters of credit	**151,421**	189,520
Letter of Guarantees	**1,712,382**	1,897,510
Contingencies	**1,863,803**	2,087,030

	KD 000's	
	2018	*2017*
Capital commitments and others	**364,280**	408,254

28 CURRENCY SWAPS, PROFIT RATE SWAPS, FORWARD FOREIGN EXCHANGE AND FORWARD COMMODITY CONTRACTS ("ISLAMIC DERIVATIVE FINANCIAL INSTRUMENTS")

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

The currency swaps, profit rate swaps, forward foreign exchange and forward commodity contracts are being used for hedging purpose.

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

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

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28 CURRENCY SWAPS, PROFIT RATE SWAPS, FORWARD FOREIGN EXCHANGE AND FORWARD COMMODITY CONTRACTS ("ISLAMIC DERIVATIVE FINANCIAL INSTRUMENTS") (continued)

			KD 000's
	Positive fair value	***Negative fair value***	***Notional amount***
31 December 2018			
Forward contracts	2,568	3,733	336,980
Profit rate swaps	73	3,289	224,633
Currency swaps	895	8,372	792,523
Embedded precious metals	-	459	132,457
	3,536	**15,853**	**1,486,593**

			KD 000's
	Positive fair value	*Negative fair value*	*Notional amount*
31 December 2017			
Forward contracts	1,369	1,890	145,037
Profit rate swaps	114	-	12,348
Currency swaps	817	10,786	503,914
Embedded precious metals	-	121	115,373
	2,300	12,797	776,672

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

				KD 000's
	Notional amount	***Within 3 months***	***3 to 12 months***	***More than 12 months***
31 December 2018				
Cash inflows	1,486,593	631,157	407,268	448,168
Cash outflows	(1,360,223)	(630,044)	(339,358)	(390,821)
Net cash flows	126,370	1,113	67,910	57,347
31 December 2017				
Cash inflows	776,672	424,970	239,848	111,854
Cash outflows	(673,730)	(427,349)	(124,712)	(121,669)
Net cash flows	102,942	(2,379)	115,136	(9,815)

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29 RELATED PARTY TRANSACTIONS

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

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

					KD 000's	
					Total	
	Major shareholders	*Associates & joint ventures*	*Board Members and executive Officers*	*Other related party*	*2018*	*2017*
Financing income	**-**	**6,319**	**162**	**240**	**6,721**	5,576
Fee and commission income	**-**	**407**	**208**	**115**	**730**	1,150
Finance costs and distribution to depositors	**30,608**	**1,637**	**88**	**1,141**	**33,474**	25,660

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

					KD 000's	
					Total	
	Major shareholders	*Associates & joint ventures*	*Board Members and executive Officers*	*Other related party*	*2018*	*2017*
Financing receivables	**-**	**250,141**	**3,735**	**9,300**	**263,176**	240,725
Due to banks and financial institutions	**1,379,681**	**36,462**	**-**	**-**	**1,416,143**	1,387,400
Depositors' accounts	**-**	**55,282**	**10,233**	**19,667**	**85,182**	88,695
Contingencies and capital commitments	**486**	**12,695**	**-**	**3,140**	**16,321**	12,473
Investment managed by related party	**-**	**-**	**-**	**33,452**	**33,452**	33,281

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

	The number of Board Members or Executive Officers		*The number of related parties (Relatives of board members or executive officers)*		*KD 000's*	
	2018	*2017*	***2018***	*2017*	***2018***	*2017*
Board Members						
Finance facilities	**19**	26	**12**	13	**2,083**	2,466
Credit cards	**10**	16	**4**	4	**36**	52
Deposits	**57**	68	**87**	97	**16,889**	20,345
Collateral against financing facilities	**4**	7	**3**	3	**1,950**	3,559
Executive officers						
Finance facilities	**38**	46	**11**	12	**2,258**	2,577
Credit cards	**31**	35	**5**	6	**198**	170
Deposits	**76**	79	**78**	84	**7,627**	7,120
Collateral against financing facilities	**8**	12	**4**	4	**4,920**	5,515

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29 RELATED PARTY TRANSACTIONS (continued)

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

	KD 000's	
	Total	
	2018	*2017*
Salaries, allowances and bonuses of key management personnel	**17,207**	18,260
Termination & long term benefits of key management personnel	**1,228**	1,292
Remuneration of chairman and board members*	**1,400**	1,435
	19,835	20,987

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

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

30 SEGMENTAL ANALYSIS

Primary segment information

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

Treasury: Liquidity management, murabaha investments, investment in Sukuk, exchange of deposits with banks and financial institutions and international banking relationships.

Retail and Private Banking: Consumer banking provides a diversified range of products and services to individual. Private banking provides comprehensive range of customised and innovative banking services to high net worth individuals

Corporates Banking: Providing a range of banking services and investment products to corporates, providing commodity and real estate murabaha finance, local leasing, wakala and istisna'a facilities.

Investment: Managing direct equity and real estate investments, non-banking Group entities, associates and Joint ventures.

					KD 000's
31 December 2018	***Treasury***	***Retail and private Banking***	***Corporate Banking***	***Investment***	***Total***
Total assets	**4,963,624**	**5,813,751**	**4,931,364**	**2,061,539**	**17,770,278**
Total liabilities	**3,500,725**	**9,467,206**	**2,142,414**	**585,763**	**15,696,108**
Operating income	**60,165**	**296,190**	**246,740**	**142,913**	**746,008**
Provisions and impairment	**(1,979)**	**(17,864)**	**(39,827)**	**(102,840)**	**(162,510)**
Profit (loss) for the year	**45,608**	**103,742**	**140,070**	**(25,896)**	**263,524**

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30 SEGMENTAL ANALYSIS (continued)

					KD 000's
31 December 2017	*Treasury*	*Retail and private Banking*	*Corporate Banking*	*Investment*	*Total*
Total assets	4,322,393	5,602,145	5,017,819	2,415,624	17,357,981
Total liabilities	3,182,227	9,193,523	2,128,887	737,222	15,241,859
Operating income	28,103	295,217	235,691	154,269	713,280
Provisions and impairment	(4,649)	(15,954)	(82,205)	(60,603)	(163,411)
Profit for the year	12,404	110,394	80,231	11,126	214,155

Secondary segment information

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

				KD 000's
	Assets		*Contingencies and capital commitments*	
	2018	*2017*	***2018***	*2017*
Geographical areas:				
Middle East	**12,175,300**	11,622,596	**669,317**	719,147
Europe	**4,586,413**	4,591,288	**1,432,880**	1,687,389
Other	**1,008,565**	1,144,097	**125,886**	88,748
	17,770,278	17,357,981	**2,228,083**	2,495,284

						KD 000's
	Local		*International*		*Total*	
	2018	*2017*	***2018***	*2017*	***2018***	*2017*
Operating income	**371,711**	316,120	**374,297**	397,160	**746,008**	713,280
Profit for the year	**162,130**	83,177	**101,394**	130,978	**263,524**	214,155

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31 RISK MANAGEMENT

Risk management is an integral part of Group decision-making processes. It is implemented through a governance process that emphasizes on independent risk assessment, control and monitoring, overseen directly by the Board and senior management.

KFH continues to upgrade its risk management capabilities in the light of developments in the business, banking and market regulations and risk management best practices. KFH operates a “three lines of defence” system for managing risk.

The first line of defence recognizes that risks are raised by the business units and within their business. In KFH, all employees (credit officers, dealers, operations, etc.) are required to ensure the effective management of risks within their organizational responsibilities.

The second line of defence comprises the Risk Management Department and the Financial Control Department, which are responsible for ensuring that the risks are managed in accordance within the stated risk appetite.

The third line of defence is the independent assurance provided by the Internal Audit function. Its role is defined and overseen by the Audit Committee. The findings from the Internal Audit audits are reported to all relevant management and governance bodies. The Internal Audit function provides assurance that the overall system of control effectiveness is working as required within the risk management framework.

The risk management department is responsible for managing and monitoring risk exposures. It also, measures risk using risk models and presents reports to the Board Risk Committee. The models use probabilities based on historical experiences adjusted to reflect the current economic environment.

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

Risk mitigation
As part of its overall risk management, the Group uses currency swaps, profit rate swaps, forward foreign exchange and forward commodity contracts (within accepted Shari’a products) to manage exposures and emerging risks resulting from changes in yields, foreign currencies and, equity risks. The Group actively uses collateral to reduce its credit risks.

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

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

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32 CREDIT RISK

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

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

Assessment of expected credit losses *(policy applicable from 1 January 2018)*

Definition of default and cure
The Group considers a financial asset to be in default and therefore Stage 3 (credit impaired) for ECL calculations when:

- the customer is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held);
- the customer is past due more than 90 days on any material credit obligation to the Group; or
- customer is considered as credit impaired based on qualitative assessment for internal credit risk management purposes

Any credit impaired or stressed facility that has been restructured during the year would also be considered as in default. The Group considers externally-rated exposures with ratings 'D' for S&P and Fitch, and 'C' for Moody's as defaulted.

The Group considers a variety of indicators that may indicate unlikeliness to pay as part of a qualitative assessment of whether a customer is in default. Such indicators include:
- breaches of covenants
- customer having past due liabilities to public creditors or employees
- customer is deceased

Significant increase in credit risk
The Group continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12 months ECL or life time ECL, the Group assess whether there has been a significant increase in credit risk since initial recognition. The Group applies a consistent quantitative criterion for internally and externally rated portfolio to assess significant increase in credit risk.

Internal rating and PD estimation process
In managing its portfolio, the Group utilises ratings and other measures and techniques which seek to take account of all aspects of perceived risk. The Group uses Moody's Risk Analyst (MRA) as its internal credit-rating engine. The MRA tool provides the ability to analyze a business and produce risk ratings. The analysis supports the usage of financial factors as well as non-financial subjective factors. The Group also uses external ratings by recognised rating agencies for externally rated portfolios.

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

The standard requires the use of separate PD for a 12-month duration and lifetime duration depending on the stage allocation of the obligor. A PD used for IFRS 9 should reflect the Group's estimate of the future asset quality. The through the cycle (TTC) PDs are generated from MRA based on the internal/external credit ratings. The Group converts the TTC PD to a point in time (PIT) PD term structures using appropriate models and techniques.

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32 CREDIT RISK (continued)

Assessment of expected credit losses *(policy applicable from 1 January 2018) (continued)*
The Group assesses the PD for its retail portfolio through behavioural scorecards implemented in the Group. The scorecards are based on logistic regression technique. This enables the evaluation of score and PD associated against each facility. Term structure of PD is based on hazard rate concept. The survival distribution used is exponential distribution. The probability distribution function of an exponentially distributed random variable is used with the hazard rate as the PD evaluated from the Behavioural scorecard.

Incorporation of forward-looking information
The Group considers key economic variables that are expected to have an impact on the credit risk and the ECL in order to incorporate forward looking information into the ECL models. These primarily reflect reasonable and supportable forecasts of the future macro-economic conditions. The consideration of such factors increases the degree of judgment in determination of ECL. The Group employs statistical models to incorporate macro-economic factors on historical default rates. The Group considers 3 scenarios (baseline, upside and downside) of forecasts of macro-economic data separately for each geographical segments and appropriate probability weights are applied to these scenarios to derive a probability weighted outcome of expected credit loss. The management reviews the methodologies and assumptions including any forecasts of future economic conditions on a regular basis.

Maximum exposure to credit risk without taking account of any collateral
The table below shows the maximum exposure to credit risk for the components of the consolidated statement of financial position. The maximum exposure is shown (before impairment, net of deferred and suspended profit), before the effect of mitigation through the use of master netting and collateral agreements.

		KD 000' s	
	Notes	***2018***	*2017*
Balances with banks and financial institutions	8	**1,162,424**	1,003,866
Short term murabaha	9	**3,248,450**	2,925,329
Financing receivables	10	**9,759,657**	9,660,883
Investment in Sukuk	11	**1,570,550**	1,429,963
Trade and other receivables		**296,304**	305,390
Total		**16,037,385**	15,325,431
Contingencies	27	**1,863,803**	2,087,030
Commitments	27	**364,280**	408,254
Total		**2,228,083**	2,495,284
Total credit risk exposure		**18,265,468**	17,820,715

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

Risk concentrations of the maximum exposure to credit risk
Concentration of risk is managed by counterparty by geographical region and by industry sector. The maximum credit exposure to a single counterparty as of 31 December 2018 was KD 275,392 thousand (2017: KD 275,509 thousand) before taking account of any collaterals.

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

	KD 000's	
	2018	*2017*
Middle East	**10,979,525**	10,042,667
Europe	**4,187,448**	4,425,614
Other	**870,412**	857,150
	16,037,385	15,325,431

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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32 CREDIT RISK (continued)

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

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

	KD 000's	
	2018	*2017*
Trading and manufacturing	**4,210,042**	4,497,392
Banks and financial institutions	**6,207,407**	5,409,920
Construction and real estate	**2,760,204**	2,897,215
Other	**2,859,732**	2,520,904
	16,037,385	15,325,431

Credit quality per class of financial assets

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

				KD 000's
	Neither past due nor impaired			
	High grade	*Standard grade*	*Past due or impaired*	*Total*
31 December 2018				
Balances with banks and financial institutions	**1,162,424**	**-**	**-**	**1,162,424**
Short-term murabaha	**3,248,450**	**-**	**-**	**3,248,450**
Financing receivables (Note 10)	**7,928,397**	**1,033,817**	**797,443**	**9,759,657**
Investment in Sukuk	**1,366,246**	**204,304**	**-**	**1,570,550**
Trade and other receivables	**296,304**	**-**	**-**	**296,304**
	14,001,821	**1,238,121**	**797,443**	**16,037,385**

				KD 000's
	Neither past due nor impaired			
	High grade	*Standard grade*	*Past due or impaired*	*Total*
31 December 2017				
Balances with banks and financial institutions	1,003,866	-	-	1,003,866
Short-term murabaha	2,925,329	-	-	2,925,329
Financing receivables (Note 10)	7,853,216	1,029,674	777,993	9,660,883
Investment in Sukuk	1,274,462	154,193	1,308	1,429,963
Trade and other receivables	305,390	-	-	305,390
	13,362,263	1,183,867	779,301	15,325,431

Aging analysis of past due but not impaired finance facilities by class of financial assets:

				KD 000's
	Less than 30 days	***31 to 60 days***	***61 to 90 days***	***Total***
31 December 2018				
Financing receivables	**352,908**	**134,551**	**92,226**	**579,685**
31 December 2017				
Financing receivables	339,207	102,284	60,278	501,769

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

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32 CREDIT RISK (continued)

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

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

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

The fair value of collateral that the Group holds relating to past due or impaired finance facilities as at 31 December 2018 was KD 315,388 thousand (2017: KD 285,220 thousand). The collateral consists of cash, securities, sukook, letters of guarantee and real estate assets.

33 LIQUIDITY RISK

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

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

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

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

The maturity profile of assets and undiscounted liabilities at 31 December 2018 is as follows:

				KD 000's
	Up to 3 months	*3 to 12 months*	*After one year*	***Total***
Assets				
Cash and balances with banks	**1,350,439**	**1,387**	**29,344**	**1,381,170**
Short-term murabaha	**2,011,981**	**1,236,469**	**-**	**3,248,450**
Financing receivables	**2,139,513**	**2,397,779**	**4,848,182**	**9,385,474**
Investment in Sukuk	**59,240**	**197,141**	**1,306,980**	**1,563,361**
Trading properties	**7,136**	**18,065**	**122,438**	**147,639**
Investments	**13,654**	**26,741**	**244,488**	**284,883**
Investment in associates and joint ventures	**-**	**-**	**499,179**	**499,179**
Investment properties	**-**	**14,877**	**474,732**	**489,609**
Other assets	**174,327**	**40,788**	**329,301**	**544,416**
Intangible assets and goodwill	**-**	**-**	**31,180**	**31,180**
Property and equipment	**-**	**-**	**194,917**	**194,917**
	5,756,290	**3,933,247**	**8,080,741**	**17,770,278**
Liabilities				
Due to banks and financial institutions	**1,472,236**	**618,414**	**598,429**	**2,689,079**
Sukuk payables	**33,580**	**143,840**	**321,168**	**498,588**
Depositors' accounts	**7,860,098**	**594,454**	**3,325,758**	**11,780,310**
Other liabilities	**182,433**	**117,863**	**427,835**	**728,131**
	9,548,347	**1,474,571**	**4,673,190**	**15,696,108**

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33 LIQUIDITY RISK (continued)

The maturity profile of assets and undiscounted liabilities at 31 December 2017 is as follows:

	Up to 3 months	*3 to 12 months*	*After one year*	*Total*
				KD 000's
Assets				
Cash and balances with banks	1,226,319	2,557	33,580	1,262,456
Short-term murabaha	1,734,004	1,191,325	-	2,925,329
Financing receivables	2,258,152	2,328,692	4,629,631	9,216,475
Investment in Sukuk	184,566	57,750	1,186,339	1,428,655
Trading properties	9,172	21,001	130,964	161,137
Investments	16,985	3,631	283,677	304,293
Investment in associates and joint ventures	-	-	463,797	463,797
Investment properties	-	-	554,321	554,321
Other assets	155,113	64,051	245,394	464,558
Intangible assets and goodwill	-	-	38,659	38,659
Property and equipment	-	-	214,001	214,001
Assets classified as held for sale	-	324,300	-	324,300
	5,584,311	3,993,307	7,780,363	17,357,981
Liabilities				
Due to banks and financial institutions	1,383,190	626,252	230,481	2,239,923
Sukuk payables	39,803	50,155	428,120	518,078
Depositors' accounts	7,395,232	572,546	3,628,955	11,596,733
Other liabilities	137,128	97,298	464,810	699,236
Liabilities directly associated with assets classified as held for sale	-	187,889	-	187,889
	8,955,353	1,534,140	4,752,366	15,241,859

The table below shows the contractual expiry by maturity of the Group's contingencies and commitments:

	Up to 3 months	*3 to 12 months*	*Over 1 year*	*Total*
				KD 000's
2018				
Contingencies (Note 27)	**621,770**	**306,739**	**935,294**	**1,863,803**
Capital commitments (Note 27)	**316,348**	**29,882**	**18,050**	**364,280**
Total	**938,118**	**336,621**	**953,344**	**2,228,083**

	Up to 3 months	*3 to 12 months*	*Over 1 year*	*Total*
				KD 000's
2017				
Contingencies (Note 27)	731,605	377,729	977,696	2,087,030
Capital commitments (Note 27)	323,141	67,032	18,081	408,254
Total	1,054,746	444,761	995,777	2,495,284

The Group expects that not all of the contingencies or capital commitments will be drawn before expiry of the commitments.

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34 MARKET RISK

Market risk is defined as the risk that arises from the Group's investments transactions, including investments in equity shares (both listed and unlisted), Sukuk, real estate and others. These risks are classified into three main areas through which the market risk is being measured and managed, as it directly impact the performance of the Group's investment portfolio, they are as follows:

Non-trading market risk

Profit rate risk
In accordance with the provisions of Islamic Shari'a, the Group generates assets and liabilities that have cash inflows and outflows or fair values whose profitability and performance are evaluated through the sensitivity of profit rates fluctuation and how to manage the risks arises from those exposures as to achieve the highest expected profits, which contributes to the profits distributed to customers and shareholders of the Bank.

Currency risk
This is the risk of incurring losses due to changes in currency exchange rates which affects both the banking book (including structural positions arising from cross-border investments) and trading book

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

The tables below indicate the currencies to which the Group had significant exposure at 31 December 2018 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Kuwaiti Dinar, with all other variables held constant on the profit and the fair value reserve (due to the change in fair value of FVOCI investments).

KD 000's

	31 December 2018			*31 December 2017*		
Currency	***Change in currency rate %***	***Effect on profit***	***Effect on fair value reserve***	*Change in currency rate %*	*Effect on profit*	*Effect on fair value reserve*
U.S. Dollars	**+1**	**589**	**50**	+1	890	479
Bahraini Dinar	**+1**	**(930)**	**156**	+1	428	19

Price risk
This is the risk arising from the changes in the market value of investments – equity (trading and banking book including strategic investments), Sukuk, and real estate.

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

KD 000's

	2018		*2017*	
	Change in equity price %	***Effect on fair value reserve***	*Change in equity price %*	*Effect on fair value reserve*
Market indices				
Kuwait Stock Exchange	**+1**	**87**	+1	910
Other GCC indices	**+1**	**153**	+1	74

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2018

34 MARKET RISK (continued)

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

The Group has a set of policies and procedures, which is approved by its Board of Directors and applied to identify, assess and supervise operational risk in addition to other types of risks relating to the banking and financial activities of the Group. Operational risk managed by the Operational Risk Management, which reviews policies, procedures, products, services and support business lines in managing and monitoring operational risks as part of overall Group-wide risk management.

Operational Risk Management of the Group is in line with the CBK instructions concerning the general guidelines for internal controls and the sound practices for managing and monitoring operational risks in Group.

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

35 CAPITAL MANAGEMENT

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

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

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

	KD 000's	
Capital adequacy	***2018***	*2017*
Risk Weighted Assets	**12,201,132**	12,073,649
Capital required	**1,830,170**	1,811,047
Capital available		
Tier 1 capital	**1,941,387**	1,932,356
Tier 2 capital	**190,477**	212,337
Total capital	**2,131,864**	2,144,693
Tier 1 capital adequacy ratio	**15.91%**	16.00%
Total capital adequacy ratio	**17.47%**	17.76%

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35 CAPITAL MANAGEMENT (continued)

The Group's financial leverage ratio for the year ended 31 December 2018 is calculated in accordance with CBK circular number 2/RBA/343/2014 dated 21 October 2014 is shown below:

	KD 000's	
	2018	*2017*
Tier 1 capital	**1,941,387**	1,932,356
Total exposure	**20,157,606**	19,344,352
Financial leverage ratio	**9.63%**	9.99%

36 MANAGEMENT OF PURCHASED DEBTS

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

37 FIDUCIARY ASSETS

The aggregate value of assets held in a trust or fiduciary capacity by the Group at 31 December 2018 amounted to KD 1,110,608 thousand (2017: KD 1,235,457 thousand).

Fees and commission income include fees of KD 4,226 thousand (2017: KD 4,917 thousand) arising from trust and fiduciary activities.

38 FAIR VALUES

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

Level 1: quoted (unadjusted) prices in active markets.
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
Level 3: other techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

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

				KD 000's
Financial assets measured at fair value:	***(Level 1)***	***(Level 2)***	***(Level 3)***	***Total***
Venture capital at fair value through statement of income (Note 12)	**-**	**29,932**	**-**	**29,932**
Equities at FVTPL (Note 12)	**52,258**	**52,252**	**57,396**	**161,906**
Equities at FVOCI (Note 12)	**29,022**		**64,023**	**93,045**
Investment in Sukuk (Note 11)	**1,291,591**	**-**	**271,770**	**1,563,361**
Derivative financial assets:				
Forward contracts	**-**	**2,568**	**-**	**2,568**
Profit rate swaps	**-**	**73**	**-**	**73**
Currency swaps	**-**	**895**	**-**	**895**
Non-financial assets:				
Investment properties	**-**	**647,569**	**-**	**647,569**
	1,372,871	**733,289**	**393,189**	**2,499,349**

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38 FAIR VALUES (continued)

				KD 000's
Financial liabilities measured at fair value:	***(Level 1)***	***(Level 2)***	***(Level 3)***	***Total***
Derivative financial liabilities:				
Forward contracts	**-**	**3,733**	**-**	**3,733**
Profit rate swaps		**3,289**		**3,289**
Currency swaps	**-**	**8,372**	**-**	**8,372**
Embedded precious metals	**-**	**459**	**-**	**459**
	-	**15,853**	**-**	**15,853**

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

				KD 000's
Financial assets measured at fair value:	*(Level 1)*	*(Level 2)*	*(Level 3)*	*Total*
Venture capital at fair value through statement of income (Note 12)	-	39,648	-	39,648
Financial assets available for sale (Note 12)	81,692	57,986	28,465	168,143
Investment in Sukuk	1,132,621	-	296,034	1,428,655
Derivative financial assets:				
Forward contracts	-	1,369	-	1,369
Profit rate swaps	-	114	-	114
Currency swaps	-	817	-	817
Non-financial assets:				
Investment properties	-	685,407	-	685,407
	1,214,313	785,341	324,499	2,324,153

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

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

Level 3 investments included unquoted Sukuk of KD 271,770 thousand (2017: KD 296,034 thousand) and unquoted equity investments of KD 121,419 thousand (2017: KD 28,465 thousand). Investment in Sukuk included in this category represent Investment in Sukuk issued by sovereign entities, financial institutions and corporates. The fair values of unquoted Investment in Sukuk are estimated using discounted cash flow method using discount rate (ranging from 2.9% to 8.2%). Unquoted equity investments are fair valued using valuation technique that is appropriate in the circumstances. Valuation techniques include discounted cash flow models, observable market information of comparable companies, recent transaction information and net asset values. Significant unobservable inputs used in valuation techniques mainly include discount rate, terminal growth rate, revenue and profit estimates. The impact on the consolidated statement of financial position or the consolidated statement of income or the consolidated statement of changes in equity would be immaterial if the relevant risk variables used for fair value estimates to fair value the unquoted equity investments were altered by 5%.

Instruments disclosed in note 28 are valued by discounting all future expected cash-flows using directly observable and quoted rate curves and spot/forward FX rates from recognised market sources (i.e. Reuters, Bloomberg, FinCAD, etc).

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38 FAIR VALUES (continued)

Investment properties have been valued based on valuations by valuers who hold a recognised and relevant professional qualification and have recent experience in the location and category of the investment properties being valued. The valuation reflects market conditions at the reporting date.

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

During the year ended 31 December 2018, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

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

	KD 000's	
	2018	*2017*
As at 1 January	**324,499**	357,507
IFRS-9 impact	**100,676**	-
	425,175	357,507
Re-measurement recognised in other comprehensive income	**(3,405)**	1,369
Disposal, net	**(28,581)**	(34,377)
As at 31 December	**393,189**	324,499

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