البنك الأهلي المتحد

ahli united bank

AHLI UNITED BANK K.S.C.P.

KUWAIT

INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 JUNE 2018 (UNAUDITED)

البنك الأهلي المتحد
ahli united bank

Ahli United Bank K.S.C.P.

Kuwait

Interim Condensed Consolidated Financial Information

30 June 2018

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Building a better working world

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

Introduction

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

Scope of Review

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

Conclusion

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

Report on other Legal and Regulatory Requirements

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

Building a better working world

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION TO THE BOARD OF DIRECTORS OF AHLI UNITED BANK K.S.C.P. (continued)

Report on other Legal and Regulatory Requirements (continued)

We further report that, during the course of our review, to the best of our knowledge and belief, we have not become aware of any 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 six months period ended 30 June 2018 that might have had a material effect on the business of the Bank or on its financial position.

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EY
AL AIBAN, AL OSAIMI & PARTNERS

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LICENCE NO. 62 A
DELOITTE & TOUCHE
AL-WAZZAN & CO.

5 July 2018
Kuwait

Interim Condensed Consolidated Statement of Profit or Loss
For the period ended 30 June 2018 (Unaudited)

	Notes	Three months ended 30 June 2018 KD'000	Three months ended 30 June 2017 KD'000	Six months ended 30 June 2018 KD'000	Six months ended 30 June 2017 KD'000
Financing income		**38,442**	34,930	**75,245**	68,502
Distribution to depositors	4	**(12,902)**	(10,494)	**(24,361)**	(20,710)
Net financing income		**25,540**	24,436	**50,884**	47,792
Net fees and commission income		**2,581**	2,474	**5,278**	5,346
Foreign exchange gains		**1,467**	438	**2,071**	1,053
Net gain from investment securities		**3,963**	376	**3,963**	1,777
Net gain on sale of investment properties		**-**	-	**174**	-
Share of results from associate		**629**	(135)	**770**	(234)
Other income		**503**	327	**730**	483
Total operating income		**34,683**	27,916	**63,870**	56,217
Provision and impairment losses		**(12,741)**	(8,101)	**(15,715)**	(11,036)
Operating income after provision and impairment losses		**21,942**	19,815	**48,155**	45,181
Staff costs		**(5,500)**	(5,313)	**(10,873)**	(10,750)
Depreciation		**(747)**	(609)	**(1,417)**	(1,162)
Other operating expenses		**(2,999)**	(2,915)	**(5,560)**	(5,552)
Total operating expenses		**(9,246)**	(8,837)	**(17,850)**	(17,464)
PROFIT FROM OPERATIONS		**12,696**	10,978	**30,305**	27,717
Zakat		**(127)**	(113)	**(306)**	(280)
National Labour Support Tax		**(317)**	(281)	**(765)**	(700)
Contribution to Kuwait Foundation for the Advancement of Sciences		**(115)**	(98)	**(273)**	(247)
PROFIT FOR THE PERIOD		**12,137**	10,486	**28,961**	26,490
Basic and diluted earnings per share	5	**5.9**	5.0	**15.4**	14.0

Interim Condensed Consolidated Statement of other Comprehensive Income
For the period ended 30 June 2018 (Unaudited)

	Three months ended 30 June		*Six months ended 30 June*	
	2018 KD'000	*2017 KD'000*	***2018 KD'000***	*2017 KD'000*
Profit for the period	**12,137**	10,486	**28,961**	26,490
Other comprehensive income:				
Other comprehensive income to be reclassified to consolidated statement of profit or loss in subsequent periods:				
Net movement in cumulative changes in fair values of investment securities	-	(647)	-	(350)
Exchange differences on translation of foreign operations	-	10	-	10
Net other comprehensive loss to be reclassified to consolidated statement of profit or loss in subsequent periods	-	(637)	-	(340)
Other comprehensive income not to be reclassified to consolidated statement of profit or loss in subsequent periods:				
Net movement in cumulative changes in fair values of investment securities	**166**	-	**321**	-
Net other comprehensive income not to be reclassified to consolidated statement of profit or loss in subsequent periods	**166**	-	**321**	-
Other comprehensive income (loss) for the period	**166**	(637)	**321**	(340)
Total comprehensive income for the period	**12,303**	9,849	**29,282**	26,150

The attached notes 1 to 13 form part of the interim condensed consolidated financial information.

Interim Condensed Consolidated Statement of Financial Position
As at 30 June 2018 (Unaudited)

	Notes	***30 June 2018 KD'000***	*(Audited) 31 December 2017 KD'000*	*30 June 2017 KD'000*
ASSETS				
Cash and balances with banks	6	**68,424**	42,329	42,499
Deposits with Central Bank of Kuwait		**378,290**	415,626	426,330
Deposits with other banks		**144,280**	222,631	296,251
Financing receivables		**2,744,565**	2,672,832	2,752,089
Investment securities		**263,951**	217,358	184,103
Investment in associate		**10,398**	9,318	9,799
Investment properties		**36,620**	38,026	32,074
Premises and equipment		**33,229**	33,273	32,380
Other assets		**16,235**	14,186	16,970
TOTAL ASSETS		**3,695,992**	3,665,579	3,792,495
LIABILITIES AND EQUITY				
LIABILITIES				
Deposits from banks and financial institutions		**767,567**	708,867	806,995
Deposits from customers		**2,379,336**	2,426,281	2,473,644
Other liabilities		**75,226**	62,843	60,410
		3,222,129	3,197,991	3,341,049
EQUITY				
Share capital	7	**196,451**	187,096	187,096
Reserves		**260,729**	263,809	247,667
		457,180	450,905	434,763
Treasury shares	7	**(43,957)**	(43,957)	(43,957)
Attributable to Bank's equity shareholders		**413,223**	406,948	390,806
Perpetual Tier 1 Sukuk	8	**60,640**	60,640	60,640
TOTAL EQUITY		**473,863**	467,588	451,446
TOTAL LIABILITIES AND EQUITY		**3,695,992**	3,665,579	3,792,495

Dr. Anwar Ali Al-Mudhaf
Chairman

المكتب الرئيسي
البنك الأهلي المتحد
ahli united bank
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HEAD OFFICE

Richard Groves
Chief Executive Officer

The attached notes 1 to 13 form part of the interim condensed consolidated financial information.

Ahli United Bank K.S.C.P.
Interim Condensed Consolidated Statement of Changes in Equity
For the period ended 30 June 2018 (Unaudited)

	Attributable to the Bank's equity shareholders												
			Reserves										
	Share capital KD'000	Share premium KD'000	Statutory reserve KD'000	General reserve KD'000	Retained earnings KD'000	Cumulative changes in fair values KD'000	Property revaluation reserve KD'000	Treasury shares reserve KD'000	Foreign currency translation reserve KD'000	Total reserves KD'000	Treasury shares KD'000	Perpetual Tier 1 Sukuk KD 000	Total KD'000
Balance as at 31 December 2017	187,096	12,883	78,877	22,660	134,920	3,478	9,976	974	41	263,809	(43,957)	60,640	467,588
Transition adjustment on adoption of IFRS 9 at 1 January 2018 (Note 3)	-	-	-	-	-	549	-	-	-	549	-	-	549
Balance as at 1 January 2018 (restated)	187,096	12,883	78,877	22,660	134,920	4,027	9,976	974	41	264,358	(43,957)	60,640	468,137
Profit for the period	-	-	-	-	28,961	-	-	-	-	28,961	-	-	28,961
Other comprehensive income for the period	-	-	-	-	-	321	-	-	-	321	-	-	321
Total comprehensive income for the period	-	-	-	-	28,961	321	-	-	-	29,282	-	-	29,282
Dividend-2017 (Note 7)	-	-	-	-	(21,899)	-	-	-	-	(21,899)	-	-	(21,899)
Issue of bonus shares – 2017 (Note 7)	9,355	-	-	-	(9,355)	-	-	-	-	(9,355)	-	-	-
Profit payment on Tier 1 Sukuk (Note 8)	-	-	-	-	(1,657)	-	-	-	-	(1,657)	-	-	(1,657)
Balance as at 30 June 2018	**196,451**	**12,883**	**78,877**	**22,660**	**130,970**	**4,348**	**9,976**	**974**	**41**	**260,729**	**(43,957)**	**60,640**	**473,863**
Balance as at 1 January 2017	173,237	12,883	74,199	22,660	131,048	3,924	10,050	974	30	255,768	(43,957)	60,640	445,688
Profit for the period	-	-	-	-	26,490	-	-	-	-	26,490	-	-	26,490
Other comprehensive (loss) income for the period	-	-	-	-	-	(350)	-	-	10	(340)	-	-	(340)
Total comprehensive income (loss) for the period	-	-	-	-	26,490	(350)	-	-	10	26,150	-	-	26,150
Dividend –2016 (Note 7)	-	-	-	-	(18,717)	-	-	-	-	(18,717)	-	-	(18,717)
Issue of bonus shares – 2016 (Note 7)	13,859	-	-	-	(13,859)	-	-	-	-	(13,859)	-	-	-
Profit payment on Tier 1 Sukuk (Note 8)	-	-	-	-	(1,675)	-	-	-	-	(1,675)	-	-	(1,675)
Balance as at 30 June 2017	187,096	12,883	74,199	22,660	123,287	3,574	10,050	974	40	247,667	(43,957)	60,640	451,446

The attached notes 1 to 13 form part of the interim condensed consolidated financial information.

Ahli United Bank K.S.C.P.

Interim Condensed Consolidated Statement of Cash Flows
For the period ended 30 June 2018 (Unaudited)

	Note	*Six months ended 30 June*	
		2018	*2017*
		KD'000	*KD'000*
OPERATING ACTIVITIES			
Profit for the period		**28,961**	26,490
Adjustments for:			
Net gain on sale of investment properties		**(174)**	-
Net gain from investment securities		**(3,963)**	(1,777)
Amortisation of sukuk premium		**254**	328
Share of results from associate		**(770)**	234
Dividend income		**(497)**	(103)
Net income from investment properties		**(220)**	(220)
Depreciation		**1,417**	1,162
Provision and impairment losses		**15,715**	11,036
Operating profit before changes in operating assets and liabilities		**40,723**	37,150
Changes in operating assets / liabilities:			
Deposits with Central Bank of Kuwait		**37,336**	5,518
Deposits with other banks		**33,052**	(59,468)
Financing receivables		**(74,615)**	(51,544)
Other assets		**(1,238)**	2,209
Deposits from banks and financial institutions		**58,658**	104,843
Deposits from customers		**(46,945)**	(18,227)
Other liabilities		**(522)**	2,722
Net cash from operating activities		**46,449**	23,203
INVESTING ACTIVITIES			
Purchase of investment securities		**(180,406)**	(182,266)
Sale and redemption of investment securities		**137,491**	203,240
Purchase of investment properties		**-**	(9,100)
Proceeds from sale of investment properties		**1,500**	-
Purchase of premises and equipment		**(1,372)**	(2,149)
Dividends income received		**497**	103
Net income from investment properties		**220**	220
Net cash (used in) from investing activities		**(42,070)**	10,048
FINANCING ACTIVITIES			
Dividends paid to shareholders		**(21,899)**	(18,717)
Profit payment on Tier 1 Sukuk		**(1,657)**	(1,675)
Net cash used in financing activities		**(23,556)**	(20,392)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(19,177)**	12,859
Cash and cash equivalents at 1 January		**87,601**	77,048
CASH AND CASH EQUIVALENTS AT 30 JUNE	6	**68,424**	89,907

Financing income received amounted to KD 73,998 thousand (30 June 2017: KD 70,201 thousand) and distribution to depositors made amounted to KD 22,763 thousand (30 June 2017: KD 19,464 thousand).

The attached notes 1 to 13 form part of the interim condensed consolidated financial information.

1 INCORPORATION AND ACTIVITIES

Ahli United Bank K.S.C.P. (the "Bank") is a public shareholding company incorporated in Kuwait in 1971 and is listed on Kuwait Stock Exchange. It is engaged in carrying out banking activities in accordance with Islamic Sharia'a and is regulated by the Central Bank of Kuwait ("CBK"). Its registered office is at Darwazat Al-Abdul Razzak, P. O. Box 71, Safat 12168, Kuwait.

The Bank commenced operations as an Islamic bank from 1 April 2010. From that date, all activities are conducted in accordance with Islamic Sharia'a, as approved by the Bank's Fatwa and Sharia'a Supervisory Board.

The Bank is a subsidiary of Ahli United Bank B.S.C., a Bahraini bank (the "Parent"), listed on the Bahrain and Kuwait Stock Exchanges. As at 30 June 2018, the Bank holds 50.12% (31 December 2017: 50.12% and 30 June 2017: 50.12%) effective interest in its subsidiary, Kuwait and Middle East Financial Investment Company K.S.C.P. ("KMEFIC"), a company incorporated in the State of Kuwait. KMEFIC is listed on the Kuwait Stock Exchange and engaged in investment and portfolio management activities for its own account and for its clients.

The interim condensed consolidated financial information of the Bank and its subsidiaries (collectively "the Group") for the period ended 30 June 2018 were authorised for issue in accordance with a resolution of the Board of Directors on 5 July 2018.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

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

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

The Group has also adopted IFRS 15: Revenue from Contracts with Customers from 1 January 2018.

Further, results for the six months period ended 30 June 2018, are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2018.

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

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

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

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

The Group adopted IFRS 15 'Revenue from Contracts with Customers' resulting in no change in the revenue recognition policy of the Group in relation to its contracts with customers. Further, adoption of IFRS 15 had no impact on this interim condensed consolidated financial information of the Group.

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. The requirements of IFRS 9 represent a significant change from IAS 39 *Financial Instruments: Recognition and Measurement*. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

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

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

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

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

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

The SPPP test
The Group assesses whether the financial instruments' cash flows represent Solely Payments of Principal and Profit (the 'SPPP test').

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

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

IFRS 9 – Financial Instruments (continued)
The SPPP test (continued)
The most significant elements of profit within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPP 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 profit 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 profit 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.

3.1 Measurement categories of financial assets and liabilities

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

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

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

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

3.1.1 Debt instruments at amortised cost

Classification
A financial asset which is a debt instrument, 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 give rise on specified dates to cash flows that are solely payments of principal and profit (SPPP) on the principal amount outstanding.

Deposits with CBK, deposits with other banks and financing receivables are classified as debt instruments at amortised cost. Certain investments securities mainly representing Group's investment in Sukuks and other assets are classified as debt instruments at amortised cost.

Subsequent measurement
Debt instruments catogorised at amortised cost are subsequently measured at amortised cost using the effective yield method adjusted for effective fair value hedges and impairment losses, if any.

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

IFRS 9 – Financial Instruments (continued)

3.1 Measurement categories of financial assets and liabilities (continued)

3.1.2 Debt instruments at FVOCI

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

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

Debt instruments at FVOCI are subsequently measured at fair value. Financing income calculated using the effective yield method, foreign exchange gains and losses and impairment losses are recognised in the consolidated statement of profit and loss. Fair value changes which are not part of an effective hedging relationship are recognised in the consolidated statement of 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 the consolidated statement of other comprehensive income is reclassified from equity to the consolidated statement of profit and loss.

3.1.3 Equity instruments at FVOCI

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

Gains and losses on these equity instruments are never recycled to consolidated statement of profit or loss. Dividends are recognised in consolidated statement of profit or loss when the right of the payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in the consolidated statement of other comprehensive income.

Equity instruments at FVOCI are not subject to an impairment assessment. Upon disposal cumulative gains or losses are reclassified from fair value reserve to retained earnings in the consolidated statement of changes in equity. Equity investments at FVOCI are included in investment securities in the consolidated statement of financial position.

3.1.4 Financial asset at FVTPL

The Group classifies financial assets fair value through profit and 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 consolidated 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, financing income and dividends are recorded in consolidated statement of profit or loss according to the terms of the contract, or when the right to payment has been established.

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

3.2 Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The management applies the new impairment model to debt instruments at amortised cost and at FVOCI excluding financing receivables to customers and financial institutions for which the Group applies impairment requirements under CBK regulations.

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

IFRS 9 – Financial Instruments (continued)

3.2 Impairment of financial assets (continued)

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

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

Stage 1: 12 months ECL
For exposures where there has not been a significant increase in credit risk since initial recognition, the portion of the lifetime ECL associated with the probability of default events occurring within next 12 months is recognised.

Stage 2: Lifetime ECL – not credit impaired
For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, a lifetime ECL is recognised.

Stage 3: Lifetime ECL – credit impaired.

Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:
- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or past due event;
- The restructuring of a financing receivables by the Group on terms that the Group would not consider otherwise;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- The disappearance of an active market for a security because of financial difficulties.

In making an assessment of whether an investment in sovereign debt, other than that of the home country sovereign (i.e. Kuwait), is credit-impaired, the Group considers the following factors.
- The market's assessment of creditworthiness as reflected in the bond/sukuk yields.
- The rating agencies' assessments of creditworthiness.

The Group measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:
- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial assets on which credit risk has not increased significantly since their initial recognition.

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

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

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

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

IFRS 9 – Financial Instruments (continued)

3.2 Impairment of financial assets (continued)

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

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 expected credit losses for each portfolio. 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, consumer price index and government expenditure, 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

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 determined that all existing hedge relationships that are currently designated as effective hedging relationships would continue to qualify for hedge accounting under IFRS 9, and accordingly will apply IFRS 9 hedge accounting effective 1 January 2018.

3.3 Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied with effect from 1 January 2018, as described below:

a) Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities 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 2017 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 and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
   - The designation of certain investments in equity instruments not held for trading as at FVOCI.

- If a debt security had low credit risk at the date of initial application of IFRS 9, then the Group has assumed that credit risk on the asset had not increased significantly since its initial recognition.

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

IFRS 9 – Financial Instruments (continued)

3.3 Transition (continued)

Impact of Adopting IFRS 9

The impact of this change in accounting policy as at 1st January 2018 has been to increase the fair value reserve by KD 549 thousand as follows:

	Fair value reserve KD 000's
Closing balance under IAS 39 (31 December 2017)	**3,478**
Impact on reclassification and re-measurements:	
Fair value loss on sukuks	**794**
Fair value adjustment on hedged AFS	**(245)**
Opening balance under IFRS 9 on date of initial application of 1 January 2018	**4,027**

3.3.1 Classification of financial assets and financial liabilities on the date of initial application of IFRS 9

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

	Original classification under IAS 39	*New classification under IFRS 9*	*Original carrying amount under IAS 39 KD 000's*	*Transition adjustments KD 000's*	*New carrying amount under IFRS 9 KD 000's*
Financial assets					
Cash and balances with banks	Loans and receivables	Amortised cost	**42,329**	-	**42,329**
Deposits with Central Bank of Kuwait	Loans and receivables	Amortised cost	**415,626**	-	**415,626**
Deposits with other banks	Loans and receivables	Amortised cost	**222,631**	-	**222,631**
Financing receivables	Loans and receivables	Amortised cost	**2,672,832**	-	**2,672,832**
Investment securities – sukuks	Investments available for sale	Amortised cost	**210,002**	794	**210,796**
Investment securities – equity and funds	Investments available for sale	Equity instruments at FVOCI	**6,974**	-	**6,974**
Investment securities – equity and funds	Investments available for sale	Financial asset at FVTPL	**382**	-	**382**
Profit receivable and other assets	Loans and receivables	Amortised cost	**7,105**	-	**7,105**
Total financial assets			**3,577,881**	794	**3,578,675**

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

IFRS 9 – Financial Instruments (continued)
3.3 Transition (continued)

3.3.1 Classification of financial assets and financial liabilities on the date of initial application of IFRS 9(continued)

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

ECL and staging of financial instruments

Credit loss expense

The table below shows the ECL charges on financial instruments for the period recorded in the consolidated statement of profit or loss:

	Stage 1 KD 000's	*Stage 2 KD 000's*	*Stage 3 KD 000's*	*Total KD 000's*
Deposits with other banks	**27**	-	-	**27**
Investment securities measured at amortised cost	**119**	-	-	**119**
	146	-	-	**146**

Movement of ECL

	Stage 1 12-month ECL KD 000's	*Stage 2 Lifetime ECL KD 000's*	*Stage 3 Lifetime ECL KD 000's*	*Purchased credit impaired KD 000's*	*Total KD 000's*
ECL charge for the period	**146**	-	-	-	**146**
At 30 June 2018	**146**	-	-	-	**146**

4 DISTRIBUTION TO DEPOSITORS

The Board of Directors of the Bank determines the depositors' share of profit on a quarterly basis based on the Bank's results for the three months period ended 30 June 2018.

5 BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share for periods presented in the interim condensed consolidated statement of profit or loss are calculated as follows:

	Three months ended 30 June		*Six months ended 30 June*	
	2018	*2017*	***2018***	*2017*
Profit for the period (KD' 000)	**12,137**	10,486	**28,961**	26,490
Less: Profit payments on Tier 1 sukuks	**(1,657)**	(1,675)	**(1,657)**	(1,675)
Profit for the period after profit payment on Tier 1 Sukuks	**10,480**	8,811	**27,304**	24,815
Weighted average number of shares outstanding during the period	**1,768,735,977**	1,768,735,977	**1,768,735,977**	1,768,735,977
Basic and diluted earnings per share attributable to the Bank's equity shareholders (fils)	**5.9**	5.0	**15.4**	14.0

Earnings per share for the three months and six months ended 30 June 2017 was 5.2 fils and 14.7 fils respectively, before retroactive adjustment to the number of shares following the bonus issue (Note 7).

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

6 CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the interim condensed consolidated statement of cash flows consists of the following:

	30 June 2018 KD'000	*(Audited) 31 December 2017 KD'000*	*30 June 2017 KD'000*
Cash and balances with banks	**68,424**	42,329	42,499
Deposits with Central banks and other banks - with an original maturity of seven days or less	**-**	45,272	47,408
	68,424	87,601	89,907

7 EQUITY

a) The shareholders' Annual General Assembly held on 1 April 2018, approved the audited consolidated financial statements of the Bank for the year ended 31 December 2017 and the distribution of cash dividend of 13 fils per share (2016: 12 fils per share) to the Bank's equity shareholders registered in the Bank's records as of the date of Annual General Assembly Meeting and issuance of bonus shares of 5% (2016:8%) to Bank's equity shareholders on record at the date of regulatory approval.

b) Treasury shares

	30 June 2018	*(Audited) 31 December 2017*	*30 June 2017*
Number of treasury shares	**195,769,926**	186,447,549	186,447,549
Treasury shares as a percentage of total shares issued	**9.97%**	9.97%	9.97%
Cost of treasury shares (KD' 000)	**43,957**	43,957	43,957
Market value of treasury shares at the reporting date (KD 000)	**55,794**	65,070	76,443
Weighted average market value per treasury share (fils)	**325**	409	416

Amount equivalent to cost of treasury shares has been retained out of reserves as non-distributable throughout the holding period of the treasury shares.

8 PERPETUAL TIER 1 SUKUK

In October 2016, the Bank through a Sharia'a compliant Sukuk arrangement issued Tier 1 Sukuk amounting to USD 200 million. Tier 1 Sukuk is a perpetual security in respect of which there is no fixed redemption date and constitutes direct, unsecured, deeply subordinated obligations (senior only to share capital) of the Bank subject to the terms and conditions of the Mudaraba Agreement. The Tier I Sukuk is listed on the Irish Stock Exchange and NASDAQ Dubai and callable by the Bank after five-year period ending October 2021 (the "First Call Date") or any profit payment date thereafter subject to certain redemption conditions including prior CBK approval.

The net proceeds of Tier 1 Sukuk are invested by way of Mudaraba with the Bank (as Mudareb) on an unrestricted basis, by the Bank in its general business activities carried out through the general Mudaraba pool. Tier I Sukuk bears profit rate of 5.5% per annum to be paid semi-annually in arrears until the First Call Date subject to terms of the issue. After that, the expected profit rate will be reset based on then prevailing 5 years U.S Mid Swap Rate plus initial margin of 4.226 % per annum.

At the issuer's sole discretion, it may elect not to make any Mudaraba distributions expected and in such event, the Mudaraba profit will not be accumulated and the event is not considered an event of default.

Semi-annual profit was paid during the six months period ended 30 June 2018.

9 TRANSACTIONS WITH RELATED PARTIES

The Group enters into transactions with the parent, subsidiaries, associates, major shareholders, directors and key management, close members of their families and entities controlled, jointly controlled or significantly influenced by such parties in the ordinary course of business. The terms of these transactions are approved by the Group's management.

The related party balances in the interim condensed consolidated financial information are as follows:

	Parent KD'000	*Others KD'000*	*Total KD'000*
As at 30 June 2018			
Financing receivables	-	**45,630**	**45,630**
Deposits with other banks	**108,397**	**6,308**	**114,705**
Deposits from banks and financial institutions	**40,782**	**532,635**	**573,417**
Deposits from customers	-	**26,701**	**26,701**
Commitments and contingent liabilities	**9,847**	**39,748**	**49,595**
Islamic Forward Agreements	**14,203**	-	**14,203**
Profit Rate Swap	**86,525**	-	**86,525**
As at 31 December 2017 (Audited)			
Financing receivables	-	40,354	40,354
Deposits with other banks	93,174	175	93,349
Deposits from banks and financial institutions	16,891	398,532	415,423
Deposits from customers	-	13,492	13,492
Commitments and contingent liabilities	8,486	45,008	53,494
Islamic Forward Agreements	9,651	-	9,651
Profit Rate Swap	44,659	-	44,659
As at 30 June 2017			
Financing receivables	-	38,278	38,278
Deposits with other banks	94,059	449	94,508
Deposits from banks and financial institutions	19,505	494,337	513,842
Deposits from customers	-	13,517	13,517
Commitments and contingent liabilities	10,885	56,589	67,474
Islamic Forward Agreements	5,697	-	5,697
Profit Rate Swap	37,875	-	37,875

9 TRANSACTIONS WITH RELATED PARTIES (continued)

	Parent KD'000	*Others KD'000*	*Total KD'000*
Transactions			
For the period ended 30 June 2018			
Financing income	**1,150**	**948**	**2,098**
Distribution to depositors	**316**	**4,740**	**5,056**
For the period ended 30 June 2017			
Financing income	525	932	1,457
Distribution to depositors	139	4,815	4,954

10 COMMITMENTS AND CONTINGENT LIABILITIES

a) Financial instruments with contractual amounts representing credit risk:

	30 June 2018 KD'000	*(Audited) 31 December 2017 KD'000*	*30 June 2017 KD'000*
Acceptances	**35,534**	42,040	37,272
Letters of credit	**65,616**	74,072	76,125
Guarantees	**443,738**	436,367	430,053
	544,888	552,479	543,450

Irrevocable credit commitments to extend credit as at the statement of financial position date amounted to KD 7,570 thousand (31 December 2017: KD 2,894 thousand and 30 June 2017: KD 2,955 thousand).

b) The capital commitment for purchase of assets as at 30 June 2018 is KD 2,014 thousand (31 December 2017: KD 1,827 thousand and 30 June 2017: KD 1,924 thousand).

11 DERIVATIVE FINANCIAL INSTRUMENTS

Islamic forward agreements (Waad)
In the ordinary course of business, the Group enters into various types of transactions that involve financial instruments represented in forward foreign exchange agreements (Waad) to mitigate foreign currency risk. A Waad is a financial transaction between two parties where payments are dependent upon movements in price of one or more underlying financial instruments, reference rate or index in accordance with Islamic Sharia'a.

The notional amount, disclosed gross, is the amount of a Waad's underlying asset/ liability and is the basis upon which changes in the value are measured.

The notional amounts indicate the volume of transactions outstanding at the period-end and are neither indicative of the market risk nor credit risk.

Profit rate swaps (PRS)
Profit rate swaps are contractual agreements between two parties and may involve exchange of profit or exchange of both principal and profit for a fixed period of time based on contractual terms.

The notional amounts indicate the volume of transactions outstanding at the period-end and are neither indicative of the market risk nor credit risk.

The fair value of derivative financial instruments included in the financial records, together with their notional amounts is summarised as follows:

11 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

	30 June 2018			(Audited) 31 December 2017			30 June 2017		
	Positive fair value KD 000's	**Negative fair value KD 000's**	**Notional KD 000's**	Positive fair value KD 000's	Negative fair value KD 000's	Notional KD 000's	Positive fair value KD 000's	Negative fair value KD 000's	Notional KD 000's
Waad	**677**	**737**	**49,006**	107	42	24,561	180	200	15,843
Profit Rate Swaps (held as fair value hedge)	**771**	**13**	**56,245**	246	-	14,484	-	23	7,575
Profit Rate Swaps (others)	**462**	**462**	**60,560**	175	175	60,350	134	134	60,600
	1,910	**1,212**	**165,811**	528	217	99,395	314	357	84,018

All derivative contracts are fair valued based on observable market inputs and are classified as level 2.

12 SEGMENT REPORTING

The Group's operating segments are determined based on the reports reviewed by the Chief Operating decision maker that are used for strategic decisions. These segments are strategic business units having similar economic characteristics that offer different products and services. These operating segments are monitored separately by the Group for the purpose of making decisions about resource allocation and performance assessment.

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

- Retail and Commercial Banking – comprising a full range of banking operations covering credit and deposit services provided to customers and correspondent banking. The Group uses a common marketing and distribution strategy for its commercial banking operations.
- Treasury and Investment Management – comprising clearing, money market, foreign exchange, sukuk, other treasury and miscellaneous operations, proprietary investment, securities trading activities and fiduciary fund management activities.

Segment results include revenue and expenses directly attributable to a segment and an allocation of overhead cost.

The Group measures the performance of operating segments through segment profit or loss net of taxes in management and reporting systems.

Segment assets and liabilities comprise those operating assets and liabilities that are directly attributable to the segment.

Segment information for the six months period ended 30 June 2018 and 2017 are as follows:

	Retail and Commercial Banking		*Treasury and Investment Management*		*Total*	
	2018 KD'000	*2017 KD'000*	***2018 KD'000***	*2017 KD'000*	***2018 KD'000***	*2017 KD'000*
Net financing income	**40,785**	39,623	**10,099**	8,169	**50,884**	47,792
Fees, commissions and others	**5,772**	6,548	**7,214**	1,877	**12,986**	8,425
Total operating income	**46,557**	46,171	**17,313**	10,046	**63,870**	56,217
Provision and impairment losses	**(14,420)**	(7,302)	**(1,295)**	(3,734)	**(15,715)**	(11,036)
Operating expenses and taxation	**(16,002)**	(15,657)	**(3,192)**	(3,034)	**(19,194)**	(18,691)
Segment result	**16,135**	23,212	**12,826**	3,278	**28,961**	26,490

12 SEGMENT REPORTING (continued)

	Retail and Commercial Banking KD'000	*Treasury and Investment Management KD'000*	*Total KD'000*
As at 30 June 2018			
Segment assets	**3,122,410**	**573,582**	**3,695,992**
Segment liabilities	**1,819,512**	**1,402,617**	**3,222,129**
As at 31 December 2017 (Audited)			
Segment assets	3,043,808	621,771	3,665,579
Segment liabilities	1,789,133	1,408,858	3,197,991
As at 30 June 2017			
Segment assets	3,133,226	659,269	3,792,495
Segment liabilities	1,797,329	1,543,720	3,341,049

13 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

The following table provides the fair value measurement hierarchy of the Group's financial instruments:

Fair value measurement hierarchy for assets and liabilities as at 30 June 2018 is as follows:

30 June 2018	***Level: 1 KD'000***	***Level: 2 KD'000***	***Level: 3 KD'000***	***Total KD'000***
Assets measured at Fair Value				
Financial assets				
Investment securities				
Equity securities and fund	**17,217**	**1,788**	**4,466**	**23,471**
Derivative financial instruments				
Waad	-	**677**	-	**677**
Profit Rate Swap	-	**1,233**	-	**1,233**
	-	**1,910**	-	**1,910**
	17,217	**3,698**	**4,466**	**25,381**
Liability measured at fair value				
Derivative financial instruments				
Waad	-	**737**	-	**737**
Profit Rate Swap	-	**475**	-	**475**
	-	**1,212**	-	**1,212**

31 December 2017 (Audited)	*Level: 1 KD 000*	*Level: 2 KD 000*	*Level: 3 KD 000*	*Total KD 000*
Assets measured at fair value				
Financial assets				
Investments available for sale	210,726	2,167	4,325	217,218
Derivative financial instrument				
Waad	-	107	-	107
Profit Rate Swap	-	421	-	421
	-	528	-	528
	210,726	2,695	4,325	217,746
Liability measured at fair value				
Derivative financial instrument				
Waad	-	42	-	42
Profit Rate Swap	-	175	-	175
	-	217	-	217

13 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

30 June 2017	*Level: 1 KD'000*	*Level: 2 KD'000*	*Level: 3 KD'000*	*Total KD'000*
Assets measured at Fair Value				
Financial assets				
Investments available for sale	176,069	3,602	4,292	183,963
Derivative financial instruments				
Waad	-	180	-	180
Profit Rate Swap	-	134	-	134
	-	314	-	314
	176,069	3,916	4,292	184,277
Liability measured at fair value				
Derivative financial instruments				
Waad	-	200	-	200
Profit Rate Swap	-	157	-	157
	-	357	-	357

The primary medium and long-term financial liabilities are subordinated liabilities. The fair values of these financial liabilities are not materially different from their carrying values, since these liabilities are repriced at intervals of three or six months, depending on the terms and conditions of the instrument and the resultant applicable margins approximate the current spreads that would apply for borrowings with similar maturities.

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

Level 1 : Quoted (unadjusted) prices in active markets for identical assets or liabilities
Level 2 : Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
Level 3 : Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.