BOUBYAN BANK K.S.C.P. AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION AND INDEPENDENT AUDITORS' REVIEW REPORT FOR THE PERIOD FROM 1 JANUARY 2018 TO 30 SEPTEMBER 2018 (UNAUDITED)

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

Introduction
We have reviewed the accompanying interim condensed consolidated statement of financial position of Boubyan Bank K.S.C.P. (the "Bank") and its subsidiaries (collectively "the Group") as at 30 September 2018, and the related interim condensed consolidated statement of profit or loss and the interim condensed consolidated statement of other comprehensive income for the three and nine months periods then ended, and the related interim condensed consolidated statement of changes in equity and interim condensed consolidated statement of cash flows for the nine 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 accounts 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, as amended, during the nine months period ended 30 September 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 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 nine months period ended 30 September 2018 that might have had a material effect on the business of the Bank or on its financial position.

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EY
(AL AIBAN, AL OSAIMI & PARTNERS)

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AL-WAZZAN & CO.

3 October 2018
Kuwait

		Three months ended 30 September		Nine months ended 30 September	
		2018	2017	**2018**	2017
	Notes	**KD'000**	KD'000	**KD'000**	KD'000
Income					
Murabaha and other Islamic financing income		**44,931**	38,698	**128,414**	109,933
Finance cost and distribution to depositors		**(16,209)**	(12,119)	**(43,757)**	(33,078)
Net financing income		**28,722**	26,579	**84,657**	76,855
Net investment income	3	**1,364**	2,106	**7,484**	5,527
Net fees and commission income		**3,470**	2,291	**10,610**	7,367
Net foreign exchange gain		**717**	699	**2,182**	1,786
Operating income		**34,273**	31,675	**104,933**	91,535
Staff costs		**(8,247)**	(7,538)	**(25,345)**	(23,006)
General and administrative expenses		**(3,939)**	(4,326)	**(13,013)**	(12,165)
Depreciation		**(1,081)**	(977)	**(3,176)**	(2,823)
Operating expenses		**(13,267)**	(12,841)	**(41,534)**	(37,994)
Operating profit before provision for impairment		**21,006**	18,834	**63,399**	53,541
Provision for impairment	4	**(5,794)**	(6,033)	**(21,153)**	(17,929)
Operating profit before deductions		**15,212**	12,801	**42,246**	35,612
Contribution to Kuwait Foundation for the Advancement of Sciences ("KFAS")		**(135)**	(127)	**(372)**	(353)
National Labour Support Tax ("NLST")		**(358)**	(327)	**(1,044)**	(902)
Zakat		**(147)**	(131)	**(417)**	(356)
Net profit for the period		**14,572**	12,216	**40,413**	34,001
Attributable to:					
Equity holders of the Bank		**14,570**	12,199	**40,311**	34,068
Non-controlling interests		**2**	17	**102**	(67)
Net profit for the period		**14,572**	12,216	**40,413**	34,001
Basic and diluted earnings per share attributable to the equity holders of the Bank (fils)	5	**6.11**	5.11	**15.83**	13.21

The notes from 1 to 13 form an integral part of this interim condensed consolidated financial information.

	Three months ended 30 September		Nine months ended 30 September	
	2018	2017	**2018**	2017
	KD'000	KD'000	**KD'000**	KD'000
Net profit for the period	**14,572**	12,216	**40,413**	34,001
Other comprehensive income/(loss)				
Items that are or may be reclassified to interim condensed consolidated statement of profit or loss in subsequent periods:				
Change in fair value of debt investments at fair value through other comprehensive income	**838**	-	**(874)**	-
Change in fair value of available for sale investments	**-**	9	**-**	578
Foreign currency translation adjustments	**3,005**	(129)	**452**	(20)
Items that will not be reclassified to interim condensed consolidated statement of profit or loss in subsequent periods:				
Change in fair value of equity investments at fair value through other comprehensive income	**(121)**	-	**(342)**	-
Other comprehensive income/(loss) for the period	**3,722**	(120)	**(764)**	558
Total comprehensive income for the period	**18,294**	12,096	**39,649**	34,559
Attributable to:				
Equity holders of the Bank	**18,292**	12,079	**39,547**	34,626
Non-controlling interests	**2**	17	**102**	(67)
Total comprehensive income for the period	**18,294**	12,096	**39,649**	34,559

The notes from 1 to 13 form an integral part of this interim condensed consolidated financial information.

BOUBYAN BANK K.S.C.P. AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

As at 30 September 2018

بـنـك بـوبـيـان
Boubyan Bank

	Notes	**30 September 2018**	(Audited) 31 December 2017	30 September 2017
		KD'000	KD'000	KD'000
Assets				
Cash and balances with banks	6	**76,559**	48,544	36,678
Deposits with Central Bank of Kuwait		**263,661**	310,420	299,499
Deposits with other banks		**208,918**	323,860	290,779
Islamic financing to customers		**3,193,029**	2,876,778	2,847,638
Financial assets at fair value through profit or loss		**36,453**	13,123	15,414
Available for sale investments		**-**	220,188	176,045
Financial assets at fair value through other comprehensive income		**336,940**	-	-
Investments in associates	7	**30,256**	52,975	54,673
Investment properties		**27,929**	53,572	40,800
Other assets		**24,221**	16,579	15,689
Property and equipment		**55,157**	54,357	52,781
Total assets		**4,253,123**	3,970,396	3,829,996
Liabilities and equity				
Liabilities				
Due to banks		**142,005**	67,474	48,176
Depositors' accounts		**3,588,669**	3,398,752	3,297,779
Other liabilities		**48,681**	51,813	41,534
Total liabilities		**3,779,355**	3,518,039	3,387,489
Equity				
Share capital		**238,847**	227,473	227,473
Share premium		**62,896**	62,896	62,896
Proposed bonus shares	13	**-**	11,374	-
Treasury shares	9	**(643)**	(1,122)	(1,122)
Statutory reserve		**19,349**	19,349	14,329
Voluntary reserve		**18,510**	18,510	13,713
Share based payment reserve		**1,431**	1,671	1,568
Fair value reserve		**3,441**	3,859	4,277
Foreign currency translation reserve		**(8,824)**	(9,276)	(9,119)
Retained earnings		**61,058**	24,122	50,377
Proposed cash dividends	13	**-**	15,900	-
Equity attributable to equity holders of the Bank		**396,065**	374,756	364,392
Perpetual Tier 1 Sukuk		**75,388**	75,388	75,388
Non-controlling interests		**2,315**	2,213	2,727
Total equity		**473,768**	452,357	442,507
Total liabilities and equity		**4,253,123**	3,970,396	3,829,996

Mahmoud Yousef Al-Fulaij
Chairman

Adel Abdul Wahab Al Majed
Vice Chairman & Chief Executive Officer

The notes from 1 to 13 form an integral part of this interim condensed consolidated financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the period from 1 January 2018 to 30 September 2018

	Equity attributable to equity holders of the Bank														
	Share capital	**Share premium**	**Proposed bonus shares**	**Treasury shares**	**Statutory reserve**	**Voluntary reserve**	**Share based payment reserve**	**Fair value reserve**	**Foreign currency translation reserve**	**Retained earnings**	**Proposed cash dividends**	**Total**	**Perpetual tier 1 Sukuk**	**Non-controlling interests**	**Total equity**
	KD'000	**KD'000**	**KD'000**	**KD'000**	**KD'000**	**KD'000**	**KD'000**	**KD'000**	**KD'000**	**KD'000**	**KD'000**	**KD'000**	**KD' 000**	**KD'000**	**KD'000**
Balance at 1 January 2018 (as originally stated)	**227,473**	**62,896**	**11,374**	**(1,122)**	**19,349**	**18,510**	**1,671**	**3,859**	**(9,276)**	**24,122**	**15,900**	**374,756**	**75,388**	**2,213**	**452,357**
Impact of adopting IFRS 9 at 1 January 2018 (note 2.2)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**798**	**-**	**(831)**	**-**	**(33)**	**-**	**-**	**(33)**
Balance as at 1 January 2018 *(restated)*	**227,473**	**62,896**	**11,374**	**(1,122)**	**19,349**	**18,510**	**1,671**	**4,657**	**(9,276)**	**23,291**	**15,900**	**374,723**	**75,388**	**2,213**	**452,324**
Profit for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**40,311**	**-**	**40,311**	**-**	**102**	**40,413**
Other comprehensive (loss)/income	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(1,216)**	**452**	**-**	**-**	**(764)**	**-**	**-**	**(764)**
Total comprehensive (loss)/income for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(1,216)**	**452**	**40,311**	**-**	**39,547**	**-**	**102**	**39,649**
Dividends paid (note 13)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(15,900)**	**(15,900)**	**-**	**-**	**(15,900)**
Profit paid on Perpetual Tier 1 Sukuk	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(2,544)**	**-**	**(2,544)**	**-**	**-**	**(2,544)**
Issue of bonus shares (note 13)	**11,374**	**-**	**(11,374)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Sale of treasury shares	**-**	**-**	**-**	**479**	**-**	**-**	**(240)**	**-**	**-**	**-**	**-**	**239**	**-**	**-**	**239**
Balance at 30 September 2018	**238,847**	**62,896**	**-**	**(643)**	**19,349**	**18,510**	**1,431**	**3,441**	**(8,824)**	**61,058**	**-**	**396,065**	**75,388**	**2,315**	**473,768**
Balance at 1 January 2017	216,641	62,896	10,832	(1,438)	14,329	13,713	1,540	3,699	(9,099)	18,884	12,974	344,971	75,388	2,794	423,153
Profit for the period	-	-	-	-	-	-	-	-	-	34,068	-	34,068	-	(67)	34,001
Other comprehensive income	-	-	-	-	-	-	-	578	(20)	-	-	558	-	-	558
Total comprehensive income/(loss) for the period	-	-	-	-	-	-	-	578	(20)	34,068	-	34,626	-	(67)	34,559
Share based payment	-	-	-	-	-	-	271	-	-	-	-	271	-	-	271
Dividends paid (note 13)	-	-	-	-	-	-	-	-	-	(5)	(12,974)	(12,979)	-	-	(12,979)
Profit paid on Perpetual Tier 1 Sukuk	-	-	-	-	-	-	-	-	-	(2,570)	-	(2,570)	-	-	(2,570)
Issue of bonus shares (note 13)	10,832	-	(10,832)	-	-	-	-	-	-	-	-	-	-	-	-
Sale of treasury shares	-	-	-	316	-	-	(243)	-	-	-	-	73	-	-	73
Balance at 30 September 2017	227,473	62,896	-	(1,122)	14,329	13,713	1,568	4,277	(9,119)	50,377	-	364,392	75,388	2,727	442,507

The notes from 1 to 13 form an integral part of this interim condensed consolidated financial information.

	Notes	Nine months ended 30 September 2018 KD'000	2017 KD'000
OPERATING ACTIVITIES			
Net profit for the period		**40,413**	34,001
Adjustments for:			
Provision for impairment	4	**21,153**	17,929
Depreciation		**3,176**	2,823
Foreign currency translation adjustments		**(1,962)**	(2,708)
Net gain from available for sale investments		**-**	(492)
Unrealised gain from financial assets at fair value through profit or loss		**(244)**	(449)
Share of results of associates		**(1,383)**	(254)
Dividend income		**(743)**	(833)
Realized gain from investment properties		**-**	(463)
Unrealized loss on fair valuation of investment properties		**1,539**	-
Loss on derecognition of investment in associates		**404**	-
Share based payment reserve		**-**	271
Operating profit before changes in operating assets and liabilities		**62,353**	49,825
Changes in operating assets and liabilities:			
Deposits with Central Bank of Kuwait		**46,759**	(6,757)
Deposits with other banks		**120,447**	56,544
Islamic financing to customers		**(328,664)**	(338,441)
Other assets		**(7,642)**	(1,746)
Due to banks		**74,531**	(28,102)
Depositors' accounts		**189,917**	352,703
Other liabilities		**(3,376)**	4,124
Net cash generated from operating activities		**154,325**	88,150
INVESTING ACTIVITIES			
Proceeds from sale of financial assets at fair value through profit or loss		**15,768**	5,691
Purchase of financial assets at fair value through profit or loss		**(13,077)**	(1,257)
Purchase of financial assets at fair value through other comprehensive income		**(126,834)**	-
Purchase of available for sale investments		-	(78,076)
Proceeds from sale of financial asset at fair value through other comprehensive income		**630**	-
Proceeds from sale of available for sale investments		-	63,302
Purchase of associate		**(36)**	-
Purchase of investment properties		**(1,438)**	(15,240)
Proceeds from sale of investment properties		**25,418**	-
Purchase of property and equipment		**(3,977)**	(29,789)
Dividend income received		**743**	833
Dividend received from associate		**202**	-
Net cash used in investing activities		**(102,601)**	(54,536)
FINANCING ACTIVITIES			
Profit paid on perpetual Tier 1 Sukuk		**(2,544)**	(2,570)
Dividends paid	13	**(15,900)**	(12,979)
Proceeds from exercise of share options		**240**	73
Net cash used in from financing activities		**(18,204)**	(15,476)
Net increase in cash and cash equivalents		**33,520**	18,138
Cash and cash equivalents at beginning of the period		**131,378**	87,380
Cash and cash equivalents at end of the period	6	**164,898**	105,518

The notes from 1 to 13 form an integral part of this interim condensed consolidated financial information.

1. INCORPORATION AND ACTIVITIES

Boubyan Bank K.S.C.P. ("the Bank") is a Kuwaiti public shareholding company incorporated on 21 September 2004, in accordance with the Commercial Companies Law in the State of Kuwait, by Amiri Decree No. 88 and in accordance with the rules and regulations of the Central Bank of Kuwait ("CBK") (Law No. 30 of 2003).

The Bank's shares were listed on the Kuwait Stock Exchange on 15 May 2006.

The Bank was licensed by the CBK on 28 November 2004. The Bank is principally engaged in providing banking services, in accordance with Codes of the Islamic Sharia'a, as approved by the Bank's Sharia'a Supervisory Board.

On 31 July 2012; the Bank became a subsidiary of National Bank of Kuwait K.S.C.P. ("the Parent Company").

This interim condensed consolidated financial information as at and for the nine months period ended 30 September 2018 incorporates the financial information of the Bank and its principal operating subsidiaries, Boubyan Takaful Insurance Company K.S.C. (Closed) and Boubyan Capital Investment Company K.S.C. (Closed), (together referred to as "the Group") and the Group's interests in associates.

The address of the Bank's registered office is P.O. Box 25507, Safat 13116, State of Kuwait.

This interim condensed consolidated financial information was authorised for issue by the Board of Directors on 2 October 2018.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Changes in accounting policies and disclosures

IFRS 15 - Revenue from Contracts with Customers

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

IFRS 9 - Financial Instruments

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

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

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

Classification and Measurement of Financial assets

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

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

Financial assets measured at amortised cost:

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

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

Financial assets measured at amortised cost are subsequently measured at amortised cost using the effective yield method.

Financial assets measured at fair value through other comprehensive income (FVOCI):

(i) Debt Securities (Sukuk) at FVOCI

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated at FVPL:

- 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Changes in accounting policies and disclosures (continued)

IFRS 9 – Financial Instruments (continued)

Classification and Measurement of Financial assets (continued)

(i) Debt Securities (Sukuk) at FVOCI (continued)

Debt Securities (Sukuk) 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 or loss. Fair value changes which are not part of an effective hedging relationship are recognised in other comprehensive income and presented in the cumulative changes in fair values as part of equity until the asset is derecognised or reclassified. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to the interim condensed consolidated statement of profit or loss.

(ii) Equity investments at FVOCI

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

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

Financial assets measured at FVTPL:

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

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

Business model assessment

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Changes in accounting policies and disclosures (continued)

IFRS 9 – Financial Instruments (continued)

Classification and Measurement of Financial assets (continued)

Assessment of whether contractual cashflows are solely payments of principal and profit (SPPP test)

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

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

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

Reclassification of financial assets

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

Hedge accounting

The general hedge accounting requirements of IFRS 9 aim to simplify hedge accounting, creating a stronger link with risk management strategy and permitting hedge accounting to be applied to a greater variety of hedging instruments and risks. The adoption of general hedge accounting requirements of IFRS 9 does not result in any change in accounting policies of the Group and does not have any material effect on the Group's interim condensed consolidated financial information.

Impairment of financial assets

The Group recognises Expected Credit Losses (ECL) for debt instruments other than Islamic financing to customers, measured at amortised cost or FVOCI. The Group applies a three stage approach to measure the expected credit loss as follows. Assets migrate through the following three stages based as the change in credit quality since initial recognition.

Stage 1 : 12-months ECL

The Group measures loss allowances at an amount equal to 12-months ECL on financial assets where there has not been significant increase in credit risk since their initial recognition or on exposures that are determined to have a low credit risk at the reporting date. The Group considers a financial asset to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade'.

Stage 2 : Lifetime ECL – not credit impaired

The Group measures loss allowances at an amount equal to lifetime ECL on financial assets where there has been a significant increase in credit risk since initial recognition but are not credit impaired.

Stage 3 : Lifetime ECL – credit impaired

The Group measures loss allowances at an amount equal to lifetime ECL on financial assets that are determined to be credit impaired based on objective evidence of impairment.

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Changes in accounting policies and disclosures (continued)

IFRS 9 – Financial Instruments (continued)

Impairment of financial assets (continued)

Determining the stage for impairment

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

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

Measurement of ECLs

Expected credit losses are probability-weighted estimate of credit losses and are measured as the present value of all cash shortfalls discounted at the effective 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 (PD), loss given default (LGD) and exposure at default (EAD). The Group estimates these elements using appropriate credit risk models taking into consideration of the internal and external credit ratings of the assets, nature and value of collaterals, forward looking macroeconomic scenarios etc.

Presentation of allowance for ECL in the statement of financial position

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

Impairment of Islamic financing to customers

The Group recognises provision charge for Islamic financing to customers in accordance with the existing accounting policy for impairment of financial assets carried at amortised cost as disclosed in the annual consolidated financial statements for the year ended 31 December 2017.This complies in all material respects with the specific and general provision requirements of the Central Bank of Kuwait.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Changes in accounting policies and disclosures (continued)

IFRS 9 – Financial Instruments (continued)

IFRS 9 transition disclosures

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

	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	Re-measurement - ECL	New carrying amount under IFRS 9
Financial assets			**KD'000**	**KD'000**	**KD'000**
Balances and deposits with CBK and other banks	Loans and receivable	Amortised cost	663,804	(33)	663,771
Investments - Debt Sukuk	AFS	FVOCI	180,928	-	180,928
Investments - Funds	AFS	FVTPL	29,267	-	29,267
Investments - Equity	AFS	FVOCI	9,993	-	9,993
Investments - Equity	FVTPL	FVOCI	3,477	-	3,477
Other financial assets	Loans and receivable	Amortised cost	9,176	-	9,176

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

The adoption of IFRS 9 did not result in any change in the measurement of Islamic financing to customers. Islamic financing to customers are carried at amortised cost using effective yield method less any amounts written off and provision for impairment. The provision for impairment is based on the provisioning requirements of Central Bank of Kuwait.

The following table reconciles the closing impairment allowances for financial assets other than Islamic financing to customers determined in accordance with IAS 39 as at 31 December 2017 to the opening ECL allowances determined in accordance with IFRS 9 as at 1 January 2018.

	Impairment allowances under IAS 39 at 31 December 2017	Re-measurement	Expected credit losses under IFRS 9 at 1 January 2018
	KD'000	**KD'000**	**KD'000**
Debt financial assets at FVOCI	**-**	**232**	**232**
Other financial assets at amortised cost	**-**	**33**	**33**
Total expected credit losses - ECL	**-**	**265**	**265**

The adoption of IFRS 9 did not result in any material ECL charge in the interim condensed consolidated statement of profit or loss for the period ended 30 September 2018.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Changes in accounting policies and disclosures (continued)

IFRS 9 – Financial Instruments (continued)

Impairment of financial assets (continued)

The following table analyses the impact of transition to IFRS 9 on fair value reserve and retained earnings.

	Retained earnings	Fair value reserve
	KD'000	KD'000
Closing balance under IAS 39 (31 December 2017)	**24,122**	**3,859**
Impact on reclassification and re-measurements:		
Investment securities (funds) from available-for-sale to FVPL	**(566)**	**566**
Impact on recognition of Expected Credit Losses on financial assets other than Islamic financing to customers:		
Expected Credit Losses under IFRS 9 for debt financial assets at FVOCI	**(232)**	**232**
Expected Credit Losses under IFRS 9 for financial assets at amortised cost	**(33)**	**-**
Opening balance under IFRS 9 on date of initial application of 1 January 2018	**23,291**	**4,657**

3. NET INVESTMENT INCOME

	Three months ended 30 September		Nine months ended 30 September	
	2018	2017	**2018**	2017
	KD'000	KD'000	**KD'000**	KD'000
Sukuk coupon income	**2,489**	1,060	**6,004**	2,717
Dividend income	**203**	299	**743**	833
Net (loss)/gain from financial assets at fair value through profit or loss	**(377)**	81	**733**	449
Net gain from available from sale of investment	**-**	-	**-**	492
Net (loss)/gain from investment properties	**(1,322)**	407	**(975)**	782
Loss on derecognition of investment in an associate	**(404)**	-	**(404)**	-
Share of results of associates	**775**	259	**1,383**	254
	1,364	2,106	**7,484**	5,527

4. PROVISION FOR IMPAIRMENT

	Three months ended 30 September		Nine months ended 30 September	
	2018	2017	**2018**	2017
	KD'000	KD'000	**KD'000**	KD'000
Provision charge for Islamic financing to customers	**4,730**	1,017	**12,653**	7,673
ECL – Other financial assets	**-**	-	**58**	-
Impairment loss on investments in associates	**1,064**	5,016	**8,442**	10,256
	5,794	6,033	**21,153**	17,929

5. BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit for the period attributable to the equity holders of the Bank by the weighted average number of shares outstanding during the period.

Diluted earnings per share is calculated by dividing the net profit for the period attributable to the equity holders of the Bank by the weighted average number of shares outstanding during the period plus the weighted average number of share that would be issued on the conversion of all the dilutive potential shares into shares. The diluted earnings per share arising from the issue of employee share option does not result in any change to the reported basic earnings per share.

	Three months ended 30 September		Nine months ended 30 September	
	2018	2017	**2018**	2017
Net profit for the period attributable to the equity holders of the Bank (KD'000)	**14,570**	12,199	**40,311**	34,068
Less: profit payment on Perpetual Tier 1 Sukuk (KD'000)	**-**	-	**(2,544)**	(2,570)
	14,570	12,199	**37,767**	31,498
Weighted average number of shares outstanding during the period net of treasury shares (thousands of shares)	**2,386,444**	2,385,148	**2,386,217**	2,384,937
Basic and diluted earnings per share attributable to the equity holders of the Bank (fils)	**6.11**	5.11	**15.83**	13.21

Earnings per share for the prior period were 5.37 fils and 13.87 fils, before retroactive adjustment to the number of shares following the bonus issue (note 13).

6. CASH AND CASH EQUIVALENTS

	30 September 2018	(Audited) 31 December 2017	30 September 2017
	KD'000	KD'000	KD'000
Cash and balances with banks	**76,559**	48,544	36,678
Placements with banks maturing within seven days	**88,339**	82,834	68,840
	164,898	131,378	105,518

7. INVESTMENT IN ASSOCIATES

During the period, the Group discontinued the use of equity method for an associate due to loss of significant influence and has accordingly reclassified the investments as fair value through other comprehensive income. The Group has recorded a net loss of **KD 404 thousand** in the interim condensed consolidated statement of profit or loss as a result of this reclassification.

8. RELATED PARTY TRANSACTIONS

Related parties comprise the major shareholders, board of directors, entities controlled by them or under their joint control, associates, key management personnel and their close family members and the Parent Company including their board member, key management personnel, branches, associates and subsidiaries. Balances with related parties arise from commercial transactions in the normal course of business on an arm's length basis and are included within the following financial information captions:

	Number of board members or executive officers			Number of related parties				(Audited)	
	30 September 2018	31 December 2017	30 September 2017	**30 September 2018**	31 December 2017	30 September 2017	**30 September 2018**	31 December 2017	30 September 2017
							KD'000	KD'000	KD'000
Islamic financing to customers	**7**	8	8	**2**	2	2	**4,269**	7,717	2,679
Depositors' accounts	**15**	18	18	**10**	9	9	**5,377**	10,023	12,613
Letters of guarantee and letters of credit	**-**	2	2	**-**	1	-	**6**	29	29
Murabaha and other Islamic financing income							**145**	144	61
Finance cost and distribution to depositors							**(72)**	(182)	(148)
Parent Company									
Due from banks							**58,323**	128,711	152,684
Due to banks							**27,596**	35,883	27,647
Murabaha and other Islamic financing income							**1,272**	1,583	999
Finance cost and distribution to depositors							**(293)**	(162)	(99)

8. RELATED PARTY TRANSACTIONS (CONTINUED)

Compensation of key management personnel

Details of compensation to key management comprise the following:

	Three months ended 30 September		Nine months ended 30 September	
	2018	2017	**2018**	2017
	KD'000	KD'000	**KD'000**	KD'000
Short-term benefits	**534**	483	**1,553**	1,389
Post-employment benefits	**85**	291	**291**	481
Share based compensation	**143**	133	**440**	399
	762	907	**2,284**	2,269

9. TREASURY SHARES

The Bank held the following treasury shares:

	30 September 2018	(Audited) 31 December 2017	30 September 2017
Number of treasury shares	**2,027,659**	3,323,164	3,323,164
Treasury shares as a percentage of total issued shares - %	**0.08489%**	0.1461%	0.1461%
Cost of treasury shares – KD thousand	**643**	1,122	1,122
Market value of treasury shares – KD thousand	**1,142**	1,449	1,462
Weighted average of market value per share – fils	**0.497**	0.424	0.422

10. CONTINGENCIES AND COMMITMENTS

At the financial reporting date there were outstanding contingencies and commitments entered in the ordinary course of business in respect of the following:

	30 September 2018	(Audited) 31 December 2017	30 September 2017
	KD'000	KD'000	KD'000
Guarantees	**272,226**	239,409	217,796
Acceptances and letters of credit	**92,749**	84,330	63,844
Other commitments	**1,305**	1,278	1,828
	366,280	325,017	283,468

11. SEGMENT REPORTING

Operating segments are identified on the basis of internal reports that are regularly reviewed by the decision makers in order to allocate resources to the segments and to assess their performance. The operating segments are divided as either business segments or geographical segments.

Business Segments
For management purposes, the Bank is organized into the following four major business segments:

Consumer banking: Provides a diversified range of products and services to individuals and institutional customers. The range includes consumer finance, credit cards, deposits and other branch related services.

Corporate banking: Provides Murabaha, Ijarah, trade service and other related services to business and corporate customers.

Investment banking*:* Principally handling direct investments, investment in associates, local and international real estate investment and asset management.

Treasury: Principally handling local and international Murabaha and other Islamic financing, primarily with banks, as well as the management of the Bank's funding operations.

Group centre*:* Includes other group activities and residual in respect of transfer pricing and inter segment allocation.

	Consumer banking KD'000	Corporate banking KD'000	Investment banking KD'000	Treasury KD'000	Group centre KD'000	Total KD'000
Nine months ended 30 September 2018						
Net financing income/(loss)	**48,855**	**22,404**	**(2,122)**	**8,561**	**6,959**	**84,657**
Operating income	**54,155**	**34,870**	**2,372**	**10,842**	**2,694**	**104,933**
Net profit/(loss) for the period	**30,080**	**24,008**	**(8,648)**	**10,411**	**(15,438)**	**40,413**
Total assets	**1,437,647**	**2,207,798**	**151,472**	**435,057**	**21,149**	**4,253,123**
Total liabilities	**1,884,478**	**297,280**	**20,101**	**1,555,729**	**21,767**	**3,779,355**
Nine months ended 30 September 2017						
Net financing income/(loss)	42,741	24,262	(1,848)	8,328	3,372	76,855
Operating income	46,023	31,127	4,058	10,114	213	91,535
Net profit/(loss) for the period	24,072	27,218	(8,304)	9,774	(18,759)	34,001
Total assets	1,272,832	1,821,328	169,149	576,552	(9,865)	3,829,996
Total liabilities	1,472,688	234,606	39,802	1,648,067	(7,674)	3,387,489

12. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in orderly transactions between market participants at the measurement date. Fair values are obtained from quoted market prices, discounted cash flow models and other models as appropriate.

Fair value hierarchy
The table below analyses financial instruments measured at fair value by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: input other than quoted prices included within Level 1 that are observable, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs that are not based on observable market data (unobservable inputs).

12. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

	Level 1	Level 2	Level 3	Total
	KD'000	KD'000	KD'000	KD'000
30 September 2018				
Financial assets at fair value through profit or loss	**-**	**36,453**	**-**	**36,453**
Financial assets at fair value through other comprehensive income	**306,115**	**-**	**30,825**	**336,940**
	306,115	**36,453**	**30,825**	**373,393**
31 December 2017 (Audited)				
Financial assets at fair value through profit or loss	-	9,646	3,477	13,123
Available for sale investments	181,133	29,267	9,788	220,188
	181,133	38,913	13,265	233,311
30 September 2017				
Financial assets at fair value through profit or loss	-	12,427	2,987	15,414
Available for sale investments	143,895	22,149	10,001	176,045
	143,895	34,576	12,988	191,459

Fair values of all financial instruments are not materially different from their carrying values.

The movement in Level 3 of financial instrument during the period are as follows:

	At 1 January	Change in fair value	Additions/ transfers	Sale/ redemption	Exchange rate movements	At 30 September
	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000
30 September 2018:						
Assets measured at fair value						
Financial assets at fair value through profit or loss	**3,477**	**-**	**(3,477)**	**-**	**-**	**-**
Available for sale investments	**9,788**	**-**	**(9,788)**	**-**	**-**	**-**
Financial assets at fair value through other comprehensive income	**-**	**(15)**	**30,895**	**(88)**	**33**	**30,825**
	13,265	**(15)**	**17,630**	**(88)**	**33**	**30,825**
30 September 2017:						
Assets measured at fair value						
Financial assets at fair value through profit or loss	2,987	-	-	-	-	2,987
Available for sale investments	10,097	10	-	-	(106)	10,001
	13,084	10	-	-	(106)	12,988

The impact on the interim condensed consolidated statement of financial position or the interim condensed consolidated statement of profit and loss and other comprehensive income would be immaterial if the relevant risk variables used to fair value the securities classified under level 2 and level 3 were altered by 5 percent.

13. ANNUAL GENERAL ASSEMBLY MEETING

The Annual General Assembly meeting of the shareholders held on 11 March 2018 approved **5%** bonus shares (2016: 5%) and a cash dividend of **7** fils per share (2016: 6 fils per share) for the year ended 31 December 2017. The bonus shares increased the number of issued and fully paid up shares by **113,736,743** shares (2016: 108,320,707 shares) and increase in share capital by **KD 11,374 thousand** (2016: KD 10,832 thousand).