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

CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS’ REPORT
FOR THE YEAR ENDED 31 DECEMBER 2014

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF BOUBYAN BANK K.S.C.P.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Boubyan Bank Kuwait K.S.C.P. (the "Bank") and its subsidiaries (collectively "the Group"), which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2014, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted for use by the State of Kuwait.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
BOUBYAN BANK K.S.C.P. (Continued)

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of account have been kept by the Bank and the consolidated financial statements, together with the contents of the report of the Bank's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the Central Bank of Kuwait ("CBK") as stipulated in CBK Circular Nos. 2/RB, RBA/336/2014 dated 24 June 2014 and 2/I.B.S. 343/2014 dated 21 October 2014 respectively, the Companies Law No. 25 of 2012, as amended, and by the Bank's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the CBK as stipulated in CBK Circular Nos. 2/RB, RBA/336/2014 dated 24 June 2014 and 2/I.B.S. 343/2014 dated 21 October 2014 respectively, the Companies Law No. 25 of 2012, as amended, or of the Bank's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2014 that might have had a material effect on the business of the Bank or on its consolidated financial position.

We further report that, during the course of our audit, we have not become aware of any violations of the provisions of Law No 32 of 1968, as amended, concerning currency, the CBK and the organisation of banking business, and its related regulations during the year ended 31 December 2014 that might have had a material effect on the business of the Bank or on its consolidated financial position.

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6 January 2015

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the year ended 31 December 2014

	Notes	2014 KD'000	2013 KD'000
Income			
Murabaha and other Islamic financing income		**83,692**	70,969
Distribution to depositors	5	**(15,961)**	(8,527)
Murabaha cost		**(1,523)**	(1,700)
Net financing income		**66,208**	60,742
Net investment income	6	**4,986**	962
Net fees and commission income	7	**5,935**	3,632
Share of results of associates	16	**(247)**	726
Net foreign exchange gain		**1,352**	1,010
Other Income		**171**	-
Operating income		**78,405**	67,072
Staff costs		**(20,833)**	(18,767)
General and administrative expenses		**(12,411)**	(10,062)
Depreciation		**(2,178)**	(1,699)
Operating expenses		**(35,422)**	(30,528)
Operating profit before provision for impairment		**42,983**	36,544
Provision for impairment	8	**(12,952)**	(23,081)
Operating profit before deductions		**30,031**	13,463
Contribution to Kuwait Foundation for the Advancement of Sciences ("KFAS")		**(261)**	(127)
National Labour Support Tax ("NLST")		**(736)**	(348)
Zakat		**(289)**	(133)
Board of directors' remuneration		**(240)**	(135)
Net profit for the year		**28,505**	12,720
Attributable to:			
Equity holders of the Bank		**28,239**	13,408
Non-controlling interests		**266**	(688)
Net profit for the year		**28,505**	12,720
Basic and diluted earnings per share attributable to the equity holders of the Bank (fils)	9	**14.39**	6.83

The notes from 1 to 32 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2014

	2014 **KD'000**	2013 KD'000
Net profit for the year	**28,505**	12,720
Other comprehensive income		
Other comprehensive income to be reclassified to consolidated statement of profit or loss in subsequent periods:		
Change in fair value of available for sale investments	**947**	(2,230)
Net gains on available for sale investments transferred to consolidated statement of profit and loss	**(86)**	(449)
Impairment losses on available for sale investments transferred to consolidated statement of profit and loss	**1,364**	2,115
Foreign currency translation adjustments	**1,278**	(2,873)
Other comprehensive income/(loss) for the year	**3,503**	(3,437)
Total comprehensive income for the year	**32,008**	9,283
Attributable to:		
Equity holders of the Bank	**31,742**	9,971
Non-controlling interests	**266**	(688)
Total comprehensive income for the year	**32,008**	9,283

The notes from 1 to 32 form an integral part of these consolidated financial statements.

بـنـك بـويـيـان
Boubyan Bank

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2014

	Notes	2014 KD'000	2013 KD'000
Assets			
Cash and cash equivalents	10	**314,821**	205,622
Due from banks	11	**263,593**	298,871
Islamic financing to customers	12	**1,805,115**	1,478,701
Financial assets at fair value through profit or loss	13	**12,738**	5,866
Available for sale investments	14	**113,852**	63,044
Investments in associates	16	**85,728**	85,691
Investment properties	17	**25,637**	30,245
Other assets	18	**10,944**	11,516
Property and equipment		**15,502**	12,430
Total assets		**2,647,930**	2,191,986
Liabilities and Equity			
Liabilities			
Due to banks		**226,739**	236,018
Depositors' accounts		**2,082,854**	1,657,398
Other liabilities	19	**37,235**	29,083
Total liabilities		**2,346,828**	1,922,499
Equity			
Share capital	20	**196,500**	183,645
Share premium	21	**62,896**	62,896
Proposed bonus shares	22	**9,825**	12,855
Treasury shares	23	**(763)**	(1,100)
Statutory reserve	24	**6,283**	3,306
Voluntary reserve	25	**6,015**	3,167
Share based payment reserve	26	**864**	860
Fair value reserve		**5,082**	2,857
Foreign currency translation reserve		**(6,468)**	(7,746)
Retained earnings		**5,978**	3,204
Proposed cash dividends	22	**9,815**	-
Equity attributable to equity holders of the Bank		**296,027**	263,944
Non-controlling interests		**5,075**	5,543
Total equity		**301,102**	269,487
Total liabilities and equity		**2,647,930**	2,191,986

Mahmoud Yousef Al-Fulaij
Chairman

Adel Abdul Wahab Al Majed
Vice Chairman & Chief Executive Officer

The notes from 1 to 32 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2014

	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	Equity attributable to equity holders of the Bank	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
Balance at 1 January 2014	**183,645**	**62,896**	**12,855**	**(1,100)**	**3,306**	**3,167**	**860**	**2,857**	**(7,746)**	**3,204**	**-**	**263,944**	**5,543**	**269,487**
Total comprehensive income for the year	-	-	-	-	-	-	-	**2,225**	**1,278**	**28,239**	-	**31,742**	**266**	**32,008**
Transfer to reserves	-	-	-	-	**2,977**	**2,848**	-	-	-	**(5,825)**	-	-	-	-
Issue of bonus shares	**12,855**	-	**(12,855)**	-	-	-	-	-	-	-	-	-	-	-
Capital redemption of non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	**(734)**	**(734)**
Share based payment (note 26)	-	-	-	-	-	-	**4**	-	-	**257**	-	**261**	-	**261**
Sales of treasury shares	-	-	-	**337**	-	-	-	-	-	**(257)**	-	**80**	-	**80**
Proposed bonus shares (note 22)	-	-	**9,825**	-	-	-	-	-	-	**(9,825)**	-	-	-	-
Proposed cash dividends (note 22)	-	-	-	-	-	-	-	-	-	**(9,815)**	**9,815**	-	-	-
Balance at 31 December 2014	**196,500**	**62,896**	**9,825**	**(763)**	**6,283**	**6,015**	**864**	**5,082**	**(6,468)**	**5,978**	**9,815**	**296,027**	**5,075**	**301,102**
Balance at 1 January 2013	174,824	62,896	8,741	(1,024)	1,891	1,813	537	3,421	(4,873)	5,424	-	253,650	2,514	256,164
Total comprehensive (loss) income for the year	-	-	-	-	-	-	-	(564)	(2,873)	13,408	-	9,971	(688)	9,283
Transfer to reserves	-	-	-	-	1,415	1,354	-	-	-	(2,769)	-	-	-	-
Issue of bonus shares	8,745	-	(8,741)	-	-	-	-	-	-	(4)	-	-	-	-
Proposed bonus shares	-	-	12,855	-	-	-	-	-	-	(12,855)	-	-	-	-
Issue of share capital	76	-	-	(76)	-	-	-	-	-	-	-	-	-	-
Share based payment (note 26)	-	-	-	-	-	-	323	-	-	-	-	323	-	323
Net movement in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	3,717	3,717
Balance at 31 December 2013	183,645	62,896	12,855	(1,100)	3,306	3,167	860	2,857	(7,746)	3,204	-	263,944	5,543	269,487

The notes from 1 to 32 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2014

	Notes	2014 KD'000	2013 KD'000
OPERATING ACTIVITIES			
Net profit for the year		**28,505**	12,720
Adjustments for:			
Provision for impairment	8	**12,952**	23,081
Depreciation		**2,178**	1,699
Foreign currency translation adjustments		**(1,487)**	(1,270)
Net loss/(gain) from available for sale investments		**10**	(314)
Net losses from financial assets at fair value through profit or loss		**547**	876
Share of results of associates		**247**	(726)
Dividend income		**(1,112)**	(1,397)
Net unrealized (gain)/loss from change in fair value of investment properties		**(2,441)**	1,712
Net (gain)/loss on sale of investment properties		**(270)**	34
Share based payment reserve		**261**	323
Operating profit before changes in operating assets and liabilities		**39,390**	36,738
Changes in operating assets and liabilities:			
Due from banks		**35,278**	(47,246)
Islamic financing to customers		**(338,678)**	(242,762)
Other assets		**572**	(5,683)
Due to banks		**(9,279)**	28,885
Depositors' accounts		**425,456**	260,609
Other liabilities		**8,001**	4,672
Dividend income received		**1,112**	1,397
Net cash generated from operating activities		**161,852**	36,610
INVESTING ACTIVITIES			
Purchase of financial assets at fair value through profit or loss		**(8,765)**	(966)
Proceeds from sale of financial assets at fair value through profit or loss		**1,451**	6,453
Purchase of available for sale investments		**(95,211)**	(7,660)
Proceeds from sale of available for sale investments		**48,488**	6,504
Dividends received from associates		**359**	286
Acquisition of associates		**-**	(3,436)
Purchase of investment properties		**(6,916)**	(3,155)
Proceeds from sale of investment properties		**13,845**	5,744
Purchase of property and equipment		**(5,250)**	(4,288)
Net cash used in investing activities		**(51,999)**	(518)
FINANCING ACTIVITES			
Capital redemption of non-controlling interest		**(734)**	-
Proceeds from exercise of share options		**80**	-
Net cash used in financing activities		**(654)**	-
Net increase in cash and cash equivalents		**109,199**	36,092
Cash and cash equivalents at the beginning of the year		**205,622**	169,530
Cash and cash equivalents at the end of the year	10	**314,821**	205,622

The notes from 1 to 32 form an integral part of these consolidated financial statements.

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.

The Bank is a subsidiary of National Bank of Kuwait S.A.K.P ("the Parent Company").

The total number of employees in the Group was **1081** employees as at 31 December 2014 (901 employees as at 31 December 2013).

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

The consolidated financial statements were authorised for issue by the Board of Directors on 6 January 2015 and the shareholders have the power to amend these consolidated financial statement at the annual assembly meeting.

2. BASIS OF PREPARATION

2.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") promulgated by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB, 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 IFRSs except for the IAS 39 requirements for collective impairment provision, which has been replaced by the Central Bank of Kuwait requirements for a minimum general provision as described in accounting policy 3.10.

2.2 Basis of measurement

The consolidated financial statements have been prepared under the historical cost basis except for the measurement at fair value of investment securities, available for sale investments, financial asset at fair value through profit or loss and investment properties.

2.3 Functional and presentation currency

These consolidated financial statements are presented in Kuwaiti Dinars, which is the Bank's functional currency. All financial information presented in Kuwaiti Dinars ("KD") has been rounded to the nearest thousands, except when otherwise indicated.

2.4 New standards, interpretations and amendments effective from 1 January 2014

The accounting policies applied are consistent with those used in the previous year. The following amendments to IFRSs effective for the annual periods beginning on or after 1 January 2014 did not have any impact on the accounting policies, financial position or performance of the Group.

Investment Entities (Amendment to IFRS 10, IFRS 12 and IAS 27)

Offsetting Financial Assets and Financial Liabilities (Amendment to IAS 32)

Novation of Derivatives and Continuation of Hedge Accounting (Amendment to IAS 39)

Recoverable Amount Disclosure for Non-Financial Assets (Amendment to IAS 36)

2. BASIS OF PREPARATION (CONTINUED)

2.5 New standards and interpretations not yet adopted

The following IASB Standards and Interpretations have been issued but are not yet effective and have not been early adopted by the Group consolidated financial statement. The Group intends to adopt them when they become effective.

IFRS 9 Financial Instruments

The IASB issued IFRS 9 - Financial Instruments in its final form in July 2014 and is effective for annual periods beginning on or after 1 January 2018 with a permission to early adopt. IFRS 9 sets out the requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non- financial assets. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The adoption of this standard will have an effect on the classification and measurement of Group's financial assets but is not expected to have a significant impact on the classification and measurement of financial liabilities. The Group is in the process of quantifying the impact of this standard on the Group's financial statements, when adopted.

IFRS 15 Revenue from Contracts with Customers (effective for financial years beginning on or after 1 July 2017)

IFRS 15 was issued by IASB on 28 May 2014 is effective for annual periods beginning on or after 1 January 2017. IFRS 15 supersedes IAS 11 – Construction Contracts and IAS 18 – Revenue along with related IFRIC 13, IFRIC 15, IFRIC 18 and SIC 31 from the effective date. This new standard would remove inconsistencies and weaknesses in previous revenue recognition requirements, provide a more robust framework for addressing revenue issues and improve comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets. The Group is in the process of evaluating the effect of IFRS 15 on the Group and do not expect any significant impact on adoption of this standard.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in this consolidated financial statements, and have been applied consistently by all of the Group's entities.

3.1 Basis of consolidation

The consolidated financial statements comprise the Bank and its principal subsidiaries (collectively "the Group") - Boubyan Takaful Insurance Company K.S.C. and Boubyan Capital Investment Company K.S.C., which are controlled by the Bank as set out in note 15.

3.1.1 *Business combinations*

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. The Group controls an investee if and only if the Group has:
- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:
- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group measures goodwill at the acquisition date as:

- The fair value of the consideration transferred; plus
- The recognised amount of any non-controlling interests in the acquiree; plus
- If the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- The fair value of the identifiable assets acquired and liabilities assumed including contingent liabilities.

When the excess is negative, a bargain purchase gain is recognised immediately in the consolidated statement of profit or loss.

Transactions costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

3.1.2 *Non-controlling interests*

Interest in the equity of subsidiaries not attributable to the Group is reported as non-controlling interest in the consolidated statement of financial position. Non-controlling interest in the acquiree is measured at the proportionate share in the recognized amount of the acquiree's identifiable net assets. Losses are allocated to the non-controlling interest even if they exceed the non-controlling interest's share of equity in the subsidiary. Transactions with non-controlling interests are treated as transactions with equity owners of the Group. Gains or losses on disposals of non-controlling interests without loss of control are recorded in equity.

3.1.3 *Subsidiaries*

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by the Bank.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Basis of consolidation (Continued)

3.1.4 *Loss of control*

On loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on loss of control is recognised in the consolidated statement of profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as a financial asset depending on the level of influence retained.

3.1.5 *Investments in associates (equity-accounted investees)*

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting right.

Investments in associates are accounted for using the equity method and are recognised initially at cost. The cost of the investment includes transaction costs.

The Group recognises in the consolidated statement of profit or loss its share of the total recognised profit or loss of the associate from the date that influence effectively commences until the date that it effectively ceases. Distributions received from the associate reduce the carrying amount of the investments. Adjustments to the carrying amount may also be necessary for changes in Group’s share in the associate arising from changes in the associate’s equity and other comprehensive income. The Group’s share of those changes is recognised directly in equity or in other comprehensive income as appropriate.

When the Group’s share of losses exceeds its interest in an equity-accounted investee, the carrying amount of the investment, including any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Any excess of the cost of acquisition over the Group’s share of the net fair value of the identifiable assets and liabilities of the associate at the date of acquisition is recognized as goodwill within the carrying amount of the associates.

Any excess of the Group’s share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, after reassessment, is recognized immediately in the consolidated statement of profit or loss.

Unrealised gains arising from transactions with associates are eliminated against the investment to the extent of the Group’s interest in the associate. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

3.1.6 *Transactions eliminated on consolidation*

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

3.2 Foreign currency

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency).

Foreign currency transactions are recorded in the functional currency at the rate of exchange prevailing at the date of the transaction.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Foreign currency (Continued)

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are included in the consolidated statement of profit or loss for the year. Exchange differences arising on the translation of non-monetary items carried at fair value are included in the consolidated statement of profit or loss for the year, except for differences arising on the translation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in other comprehensive income.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in KD using exchange rates prevailing on the reporting date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as other comprehensive income and transferred to the Group's foreign currency translation reserve. Such translation differences are recognised in the consolidated statement of profit or loss in the year in which the foreign operation is disposed off.

3.3 Revenue recognition

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

- Income from Murabaha, Wakala, and Leased assets is recognized on a pattern reflecting a constant periodic return on the outstanding net investment.
- Dividend income is recognized when the right to receive payment is established.
- Fees and commission income is recognized at the time the related services are provided.
- Rental income from investment properties is recognised on a straight line basis over the lease period.

3.4 Financial instruments

3.4.1 *Financial assets*

Trade and settlement date accounting

All regular way purchase and sale of financial assets are recognized using settlement date accounting. Changes in the fair value between trade date and settlement date are recognized in the consolidated statement of profit or loss for financial assets at fair value through profit or loss and are recognized in other comprehensive income for available for sale investments. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulations or conventions in the market place.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Financial instruments (Continued)

3.4.1 *Financial assets (Continued)*

Recognition and derecognition of financial assets

Financial assets are recognised when the Group becomes party to contractual provisions of the instrument and are initially measured at fair value. Transaction costs are included only for those financial instruments that are not measured at fair value through profit or loss.

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a liability for the proceeds received.

Offsetting

Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only if it is so permitted by the accounting standards, or for gains and losses arising from a group of similar transactions.

The Group classifies financial assets into the following categories: cash and cash equivalents, due from banks, Islamic financing to customers, financial assets at fair value through profit or loss, available for sale investments and other assets.

Cash and cash equivalents

Cash and cash equivalents consist of cash in hand, current account with other banks and placements with banks maturing within seven days.

Due from banks and Islamic financing to customers

Due from banks and Islamic financing to customers are financial assets with fixed or determinable payments that are not quoted in an active market.

Murabaha

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

Wakala

Wakala is an agreement involving Al-Muwakkil (the Principal) who wishes to appoint Al-Wakil (the Agent) to be his agent with respect to the investment of Al-Muwakkil’s fund, in accordance with regulations of the Islamic Sharia’a. Wakala is a financial asset originated by the Group and is stated at amortized cost net of provision for impairment.

Leased assets - the Group as a lessor

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating lease. Leased assets are stated at amortized cost net of provision for impairment.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Financial instruments (Continued)

3.4.1 *Financial assets (Continued)*

Renegotiated finance facilities

In the event of a default, the Group seeks to restructure facilities rather than take possession of collateral. This may involve extending the payment arrangements and the agreement of new facility conditions. When the terms and conditions of these finance facilities are renegotiated, the terms and conditions of the new contractual arrangement apply in determining whether these facilities remain past due. Management continually reviews renegotiated facilities to ensure that all criteria are met and that future payments are likely to occur. The facility continues to be subject to an individual or collective impairment assessment.

Financial assets at fair value through profit or loss

A financial asset is classified as at fair value through profit or loss if it is classified as held for trading or is designated as such on initial recognition. Financial assets are designated as at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's strategy or such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise.

Attributable transaction costs are recognised in consolidated statement of profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value and changes therein, which takes into account any dividend income, are recognised in consolidated statement of profit or loss.

Available for sale investment

Available for sale investment is non-derivative financial assets that are not classified in any of the above categories of financial assets.

Available for sale investment is recognised initially at fair value plus any directly attributable transaction costs.

Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see note 3.10) and foreign currency differences on available for sale debt instruments, are recognised in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognised or is determined to be impaired, the gain or loss accumulated in equity is reclassified to consolidated statement of profit or loss.

3.4.2 *Financial liabilities*

All financial liabilities are recognised initially on the settlement date at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

Financial liabilities comprise due to banks, depositors' accounts and other liabilities.

Due to banks and depositors' accounts

Depositors' accounts are deposits received from customers under current account, saving investment accounts and fixed term investments accounts. The depositors' accounts of the Bank comprise the following:

i) Non-investment deposits in the form of current accounts. These deposits are not entitled to any profits nor do they bear any risk of loss as the Bank guarantees to pay the related balances on demand. Accordingly, these deposits are considered Qard Hassan from depositors to the Bank under Islamic Sharia'a principals. Investing such Qard Hassan is made at the discretion of the Group, the results of which are attributable to the equity shareholders of the Bank.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Financial instruments (Continued)

3.4.2 *Financial liabilities (Continued)*

ii) Investment deposit accounts include savings accounts, fixed term deposit accounts, and open term deposit accounts.

Saving Investment Accounts

These are open-term deposits and the client is entitled to withdraw the balances of these accounts or portions thereof at any time.

Fixed-Term Deposit Investment Accounts

These are fixed-term deposits based on the deposit contract executed between the Bank and the depositor. These deposits mature monthly, quarterly, semi-annually, or annually.

Open –Term Deposit Investment Accounts

These are open-term deposits and are treated as annual deposits renewed automatically for a similar period, unless the depositor notifies the Bank in writing of his/her desire not to renew the deposit.
In all cases, investment accounts receive a proportion of profit, bear a share of loss and are carried at cost plus profit payable.

3.5 Fair values

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, in the most advantageous market to which the Group has access at that date.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

If an asset or liability measured at fair value has a bid price and an ask price, then the Group measures assets at a bid price and liabilities at an ask price.

The Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Fair values of investment properties are determined by appraisers having an appropriate recognised professional qualification and recent experience in the location and category of the property being valued and also considering the ability to generate economic benefits by using the property in its highest and best use.

3.6 Derivative

Derivative instruments are initially recognised in the consolidated statement of financial position at cost (including transaction costs) and subsequently measured at their fair value.

The Group enters into foreign exchange forward contracts. Forward foreign exchange contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Derivatives are stated at fair value. The fair value of a derivative includes unrealised gain or loss from marking to market the derivative using prevailing market rates or internal pricing models. Derivatives with positive market values (unrealised gains) are included in other assets and derivatives with negative market values (unrealised losses) are included in other liabilities in the consolidated statement of financial position.

The resultant gains and losses from derivatives are included in the consolidated statement of profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 Investment properties

Investment properties are properties held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost on initial recognition and subsequently at fair value with any change therein recognised in consolidated statement of profit or loss. Cost includes expenditure that is directly attributable to the acquisition of the investment property.

Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in consolidated statement of profit or loss.

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

3.8 Property and equipment

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. The initial cost of property and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Group. On-going repairs and maintenance is expensed as incurred.

Items of property and equipment are depreciated on a straight-line basis in consolidated statement of profit or loss over the estimated useful lives of each component.

The estimated useful lives for the current and comparative years of significant items of property and equipment are as follows:

- Furniture and leasehold improvement — 5 years
- Office equipment — 3 - 10 years
- Building on leasehold land — 20 years

Depreciation methods, useful lives and residual values are reviewed periodically and adjusted, if appropriate.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9 Impairment

3.9.1 *Financial assets*

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. If such evidence exists, any impairment loss is recognised in the consolidated statement of profit or loss.

Financial assets measured at amortised cost

The amount of impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective yield. Losses are recognised in the consolidated statement of profit or loss and reflected in an allowance account against Islamic financing to customers. When an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the consolidated statement of profit or loss.

In addition, in accordance with Central Bank of Kuwait's instructions, a minimum general provision of 1% for the cash facilities and 0.5% for the non-cash facilities, net of certain categories of collateral, to which CBK instructions are applicable and not subject to specific provisions is made. In March 2007, CBK issued a circular amending the basis of calculating general provisions on facilities changing the rate from 2% to 1% for cash facilities and from 1% to 0.5% for non-cash facilities. The required rates were to be applied effective from 1 January 2007 on the net increase in facilities, net of certain categories of collateral, during the reporting period. The general provision in excess of the present 1% for cash facilities and 0.5% for non-cash facilities as of 31 December 2006 would be retained as a general provision until a further directive from the Central Bank of Kuwait is issued.

Available for sale investment

Impairment losses on available for sale investment are recognised by reclassifying the losses accumulated in the fair value reserve in equity to consolidated statement of profit or loss. The cumulative loss that is reclassified from equity to consolidated statement of profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss recognised previously in consolidated statement of profit or loss. If, in a subsequent period, the fair value of an impaired available for sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed, with the amount of the reversal recognised in consolidated statement of profit or loss. However, any subsequent recovery in the fair value of an impaired available for sale equity security is recognised in other comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9 Impairment (Continued)

3.9.2 *Non-financial assets*

At each reporting date, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market rates and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in consolidated statement of profit or loss.

For non-financial assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. Where an impairment loss is subsequently reversed, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount and is limited to the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of impairment loss is recognized immediately in the consolidated statement of profit or loss.

3.10 Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are reviewed at each financial reporting date and adjusted to reflect the current best estimate of the expenditure required to settle the obligation at the financial reporting date and are discounted to present value where the effect is material.

3.11 Contingent liabilities and contingent assets

Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed in the notes of the consolidated financial statements, unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognized in the consolidated financial statements but are disclosed when an inflow of economic benefits is probable

3.12 Share based payment

The Bank operates an equity settled share based compensation plan. The fair value of the employee services received in exchange for the grant of options or shares is recognized as an expense, together with a corresponding increase in equity. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options or shares on the date of grant using the Black Scholes model. At each reporting date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the consolidated statement of profit or loss, with a corresponding adjustment to equity.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.13 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. Such operating segments are classified as either business segments or geographical segments.

A business segment is a distinguishable component of the Group that is engaged in providing products or services, which is subject to risks and returns that are different from those of other segments.

A geographic segment is a distinguishable component of the Group that is engaged in providing products or services within a particular economic environment which is subject to risks and returns different from those of segments operating in other economic environments.

3.14 Treasury shares

Treasury shares consist of the Bank's own shares that have been issued, subsequently reacquired by the Bank and not yet reissued or cancelled. The treasury shares are accounted for using the cost method. Under the cost method, the weighted average cost of the shares reacquired is charged to a contra equity account. When the treasury shares are reissued, gains are credited to a separate account in equity (treasury shares reserve) which is not distributable. Any realised losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings then reserves. Gains realised subsequently on the sale of treasury shares are first used to offset any previously recorded losses in the order of reserves, retained earnings and the gain on sale of treasury shares account.

No cash dividends are paid on these shares. The issue of bonus shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

3.15 Post-employment benefits

The Group is liable to make defined contributions to State plans and lump sum payments under defined benefit plans to employees at cessation of employment, in accordance with the laws of the place they are employed. The defined benefit plan is unfunded and is computed as the amount payable to employees as a result of involuntary termination on the reporting date. This basis is considered to be a reliable approximation of the present value of the final obligation.

3.16 Kuwait Foundation for the Advancement of Sciences (KFAS)

The Bank calculates the contribution to KFAS at 1% in accordance with the calculation based on the Foundation's Board of Directors resolution.

3.17 National Labour Support Tax (NLST)

The Bank calculates the NLST in accordance with Law No. 19 of 2000 and the Minister of Finance Resolutions No. 24 of 2006 at 2.5% of taxable profit for the year. Cash dividends from listed companies which are subjected to NLST are deducted from the profit for the year to determine the taxable profit.

3.18 Zakat

Effective from 10 December 2007, the Bank has provided for Zakat in accordance with the requirements of Law No. 46 of 2006. The Zakat charge calculated in accordance with these requirements is charged to the consolidated statement of profit and loss.

3.19 Financial guarantees

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognized as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognized less cumulative amortization.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.20 Fiduciary assets

The Group provides trust and other fiduciary services that result in the holding or investing of assets on behalf of its customers. Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and accordingly are not included in the consolidated statement of financial position. These are disclosed separately in the consolidated financial statements.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

4.1 Critical judgments in applying the Group's accounting policies

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect in the amounts recognized in the consolidated financial statements:

Classification of investments

Management decides on acquisition of an investment whether to classify it as held to maturity, available for sale or financial asset at fair value through profit or loss.

In designating financial assets at fair value through profit or loss, the Group determines if it meets one of the criteria for this designation set out in the significant accounting policies (see note 3.4.1).

Impairment of investments

The Group treats available for sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgement. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

Fair value hierarchy

As disclosed in note 30.6, the Group is required to determine and disclose the level in the fair value hierarchy into which the fair value measurements are categorized in their entirety, segregating fair value measurements in accordance with the levels defined in IFRS. Differentiating between Level 2 and Level 3 fair value measurements, i.e., assessing whether inputs are observable and whether the unobservable inputs are significant, may require judgement and a careful analysis of the inputs used to measure fair value, including consideration of factors specific to the asset or liability.

4.2 Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment losses on finance facilities

The Group reviews its irregular finance facilities on a quarterly basis to assess whether a provision for impairment should be recorded in the consolidated statement of profit or loss. In particular, considerable judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

4.2 Key sources of estimation uncertainty (Continued)

Valuation of unquoted equity investments

Valuation of unquoted equity investments is based on one of the following:

- Recent arm's length market transactions;
- Current fair value of another instrument that has substantially the same characteristics; or
- Other valuation models.

The determination of the cash flows and discount factors for unquoted equity investments requires significant estimation.

5. DISTRIBUTION TO DEPOSITORS

The Bank determines and distributes the depositors' share of profit based on the Bank's results at the end of each month.

6. NET INVESTMENT INCOME

	2014	2013
	KD'000	KD'000
Sukuk coupon income	**1,487**	1,545
Dividend income	**1,112**	1,397
Net rental income from investment properties	**233**	328
Net losses from financial assets at fair value through profit or loss	**(547)**	(876)
Net (loss)/gains from available for sale investments	**(10)**	314
Net gain /(loss) on sale of investment properties	**270**	(34)
Unrealized gain/(loss) from changes in fair value of investment properties	**2,441**	(1,712)
	4,986	962

7. NET FEES AND COMMISSION INCOME

	2014	2013
	KD'000	KD'000
Gross fees and commission income	**8,385**	5,271
Fees and commission expenses	**(2,450)**	(1,639)
	5,935	3,632

8. PROVISION FOR IMPAIRMENT

	2014	2013
	KD'000	KD'000
Provision for impairment of finance facilities	**11,497**	17,852
Impairment of investments	**1,455**	2,115
Provision for impairment of other assets	**-**	3,114
	12,952	23,081

8. PROVISION FOR IMPAIRMENT (CONTINUED)

The analysis of provision for impairment of finance facilities based on specific and general provision is as follows:

	Specific KD'000	General KD'000	Total KD'000
Balance at 1 January 2013	4,261	28,685	32,946
Provided during the year	13,448	4,404	17,852
Recovery of written off balances	3,779	-	3,779
Written off balances during the year	(17,781)	-	(17,781)
Balance at 31 December 2013	3,707	33,089	36,796
Provided during the year	**8,382**	**3,115**	**11,497**
Recovery of written off balances	**971**	**-**	**971**
Written off balances during the year	**(7,680)**	**-**	**(7,680)**
Balance at 31 December 2014	**5,380**	**36,204**	**41,584**

Further analysis of provision for impairment of finance facilities by category is as follows:

	Islamic finance to customers KD'000	Non-cash facilities KD'000	Total KD'000
Balance at 1 January 2013	31,551	1,395	32,946
Provided during the year	17,903	(51)	17,852
Recovery of written off balances	3,779	-	3,779
Written off balances during the year	(17,781)	-	(17,781)
Balance at 31 December 2013	35,452	1,344	36,796
Provided during the year	**11,346**	**151**	**11,497**
Recovery of written off balances	**971**	**-**	**971**
Written off balances during the year	**(7,680)**	**-**	**(7,680)**
Balance at 31 December 2014	**40,089**	**1,495**	**41,584**

At 31 December 2014, non-performing finance facilities are amounted to **KD 14,895 thousand**, net of provision of **KD 5,380 thousand** (31 December 2013: KD 25,071 thousand, net of provision of KD 3,707 thousand). The analysis of specific and general provision stated above is based on Central Bank of Kuwait's instructions.

9. BASIC AND DILUTED EARNING PER SHARE

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

Diluted earnings per share is calculated by dividing the net profit for the year attributable to the equity holders of the Bank by the weighted average number of shares outstanding during the year 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 from the reported basic earnings per share.

	2014	2013
Net profit for the year attributable to the equity holders of the Bank (KD'000)	**28,239**	13,408
Weighted average number of shares outstanding during the year (thousands of shares)	**1,962,922**	1,962,232
Basic and diluted earnings per share attributable to the equity holders of the Bank (fils)	**14.39**	6.83

Earnings per share for the year ended 31 December 2013 was 7.29 fils per share before retroactive adjustment to the number of shares following the bonus issue (see note 22).

10. CASH AND CASH EQUIVALENTS

	2014	2013
	KD'000	KD'000
Cash on hand	**24,555**	19,846
Balances with Central Bank of Kuwait – current account	**-**	682
Balances with banks – current accounts	**9,653**	7,674
Placement with banks maturing within seven days	**280,613**	177,420
	314,821	205,622

The fair values of cash and cash equivalents do not differ from their respective carrying values.

11. DUE FROM BANKS

The geographical distribution of balances due from banks is as follows:

	2014	2013
	KD'000	KD'000
Kuwait & Middle East	**206,816**	266,884
Europe	**56,777**	31,987
	263,593	298,871

12. ISLAMIC FINANCING TO CUSTOMERS

The geographical distribution of Islamic financing to customers is as follows:

	Kuwait & Middle East	Europe	Asia	**Total**
	KD'000	KD'000	KD'000	**KD'000**
2014				
Corporate banking	**1,050,485**	**4,423**	**3,329**	**1,058,237**
Consumer banking	**786,967**	**-**	**-**	**786,967**
	1,837,452	**4,423**	**3,329**	**1,845,204**
Less: provision for impairment	**(38,791)**	**(44)**	**(1,254)**	**(40,089)**
	1,798,661	**4,379**	**2,075**	**1,805,115**

	Kuwait & Middle East	Europe	Asia	Total
2013	KD'000	KD'000	KD'000	KD'000
Corporate banking	930,151	4,550	3,099	937,800
Consumer banking	576,353	-	-	576,353
	1,506,504	4,550	3,099	1,514,153
Less: provision for impairment	(35,376)	(46)	(30)	(35,452)
	1,471,128	4,504	3,069	1,478,701

Provisions for impairment of Islamic financing to customers are as follows:

	Specific		General		Total	
	2014	2013	**2014**	2013	**2014**	2013
	KD'000	KD'000	**KD'000**	KD'000	**KD'000**	KD'000
Balance at beginning of the year	**3,707**	4,261	**31,745**	27,290	**35,452**	31,551
Provided during the year	**8,382**	13,448	**2,964**	4,455	**11,346**	17,903
Recovery of written off balances	**971**	3,779	**-**	-	**971**	3,779
Written off balances during the year	**(7,680)**	(17,781)	**-**	-	**(7,680)**	(17,781)
Balance at end of the year	**5,380**	3,707	**34,709**	31,745	**40,089**	35,452

12. ISLAMIC FINANCING TO CUSTOMERS (CONTINUED)

Further analysis of specific provision based on class of financial assets is given below:

	Corporate banking		Consumer banking		Total	
	2014	2013	**2014**	2013	**2014**	2013
	KD'000	KD'000	**KD'000**	KD'000	**KD'000**	KD'000
Balance at beginning of the year	**2,369**	2,461	**1,338**	1,800	**3,707**	4,261
Provided during the year	**7,581**	12,638	**801**	810	**8,382**	13,448
Recovery of written off balances	**690**	3,619	**281**	160	**971**	3,779
Written off balances	**(6,884)**	(16,349)	**(796)**	(1,432)	**(7,680)**	(17,781)
Balance at end of the year	**3,756**	2,369	**1,624**	1,338	**5,380**	3,707

Whenever necessary, Islamic financing to customers is secured by acceptable forms of collateral to mitigate the related credit risks.

Non performing Islamic financing to customers and related specific provisions are as follows:

	2014	2013
	KD'000	KD'000
Islamic financing to customers	**20,275**	28,778
Specific provision for impairment	**(5,380)**	(3,707)
	14,895	25,071

At 31 December 2014 management estimates the fair value of collaterals held against individually impaired Islamic finance facilities to be **KD 23,800 thousand** (31 December 2013: KD 23,280 thousand).

13. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2014	2013
	KD'000	KD'000
Investment in unquoted securities	**2,995**	3,932
Investment in unquoted funds	**9,743**	1,934
	12,738	5,866

14. AVAILABLE FOR SALE INVESTMENTS

	2014	2013
	KD'000	KD'000
Investment in Sukuk	**77,982**	31,289
Investment in unquoted funds	**22,046**	18,383
Investment in unquoted securities	**11,906**	11,159
Investment in quoted securities	**1,918**	2,213
	113,852	63,044

15. SUBSIDIARIES

Principal operating subsidiaries are as follows:

Name of subsidiary	Country of incorporation	**2014 proportion of ownership interest and voting power %**	2013 proportion of ownership interest and voting power %	Principal activity
Boubyan Takaful Insurance Company K.S.C. (Closed)	Kuwait	**67.63**	67.63	Takaful insurance
Boubyan Capital Investment Company K.S.C. (Closed)	Kuwait	**99.55**	99.55	Islamic investments

16. INVESTMENTS IN ASSOCIATES

Name of associate	Country of incorporation	**2014 proportion of ownership interest and voting power %**	2013 proportion of ownership interest and voting power %	Principal activity
United Capital Bank	Republic of Sudan	**21.67**	21.67	Islamic commercial banking
Ijarah Indonesia Finance Company	Indonesia	**33.33**	33.33	Islamic financing services
Saudi Projects Holding Group	Kuwait	**25.00**	25.00	Real Estate
Bank of London and the Middle East ("BLME")	United Kingdom	**25.62**	25.62	Islamic commercial banking
Bank Syariah Muamalat Indonesia Tbk ("BSMI")	Indonesia	**22.00**	22.00	Islamic commercial banking

Summarized financial information in respect of BLME is set out below:

	2014 KD'000	2013 KD'000
Total assets	**585,845**	528,745
Total liabilities	**(473,602)**	(418,620)
Net assets	**112,243**	110,125
Group's share of net assets	**28,757**	28,214

	2014 KD'000	2013 KD'000
Total revenue	**21,918**	11,762
Net profit	**2,447**	461
Group's share of results	**627**	-

16. INVESTMENTS IN ASSOCIATES (CONTINUED)

Summarized financial information in respect of BSMI is set out below:

	2014	2013
	KD'000	KD'000
Total assets	**1,444,575**	1,241,918
Total liabilities	**(1,351,408)**	(1,140,734)
Net assets	**93,167**	101,184
Group's share of net assets	**20,497**	22,260
Group's share of contingent liabilities	**5,817**	6,305

	2014	2013
	KD'000	KD'000
Total revenue	**42,776**	56,590
Net profit	**(6,563)**	12,507
Group's share of results	**(1,445)**	-

Summarized financial information in respect of the Group's other associates that are individually immaterial, are set out below:

	2014	2013
	KD'000	KD'000
Total assets	**123,610**	112,440
Total liabilities	**(61,584)**	(77,878)
Net assets	**62,026**	34,562
Group's share of net assets	**14,036**	7,631
Group's share of contingent liabilities	**5,422**	8,136

	2014	2013
	KD'000	KD'000
Total revenue	**10,045**	9,519
Net profit	**2,737**	3,117
Group's share of results	**571**	726

17. INVESTMENT PROPERTIES

The movement in the investment properties is as follows:

	2014	2013
	KD'000	KD'000
Balance at the beginning of the year	**30,245**	17,904
Additions during the year	**6,916**	21,808
Disposals during the year	**(13,575)**	(8,048)
Net unrealized gain/(loss) from change in fair value of investment properties	**2,441**	(1,712)
Foreign currency translation adjustments	**(390)**	293
Balance at the ending of the year	**25,637**	30,245

The fair values were determined based on market approach. There has been no change to the valuation techniques during the year. All of the Group's investment properties are included in Level 2 of fair value hierarchy as at 31 December 2014.

18. OTHER ASSETS

	2014	2013
	KD'000	KD'000
Accrued income	**943**	616
Prepayments	**4,443**	4,394
Others	**5,558**	6,506
	10,944	11,516

19. OTHER LIABILITIES

	2014	2013
	KD'000	KD'000
Creditors and accruals	**8,518**	6,223
Accrued staff benefits	**7,804**	6,434
Clearing accounts	**6,040**	7,642
General provision on non-cash facilities	**1,495**	1,344
Margin accounts	**2,500**	3,085
Others	**10,878**	4,355
	37,235	29,083

20. SHARE CAPITAL

	2014		2013	
	Shares	**KD'000**	Shares	KD'000
Shares authorised, issued and paid up of 100 fils each comprised of 1,661,802,886 shares (2013: 1,661,802,886 shares) fully paid in cash and 303,198,614 shares (2013: 174,647,114 shares) issued as bonus shares	**1,965,001,500**	**196,500**	1,836,450,000	183,645

21. SHARE PREMIUM

The share premium is not distributable except under specific circumstances as provided by the Companies Law.

22. PROPOSED DIVIDEND

The board of directors recommended distribution of a cash dividends of **5 fills** per share (2013: Nil) and bonus shares of **5%** (2013: 7% the increase in capital was mark in commercial register dated on 17 March 2014) on outstanding shares as at 31 December 2014. The proposed dividends, if approved by the shareholders' general assembly shall be payable to the shareholders registered in the bank's records as of the date of the regulatory approval for distribution of dividends.

23. TREASURY SHARES

The Bank held the following treasury shares as at 31 December:

	2014	2013
Number of treasury shares	**1,930,589**	2,603,669
Treasury shares as a percentage of total issued shares - %	**0.0983%**	0.1418%
Cost of treasury shares – KD thousand	**763**	1,100
Market value of treasury shares – KD thousand	**792**	1,458
Weighted average of market value per share (fils)	**0.512**	0.620

An amount equivalent to the cost of purchase of the treasury shares have been earmarked as non-distributable from voluntary reserve throughout the holding period of treasury shares.

24. STATUTORY RESERVE

In accordance with the Companies Law No. 25 of 2012, as amended and the Bank's Memorandum of Incorporation and Articles of Association, 10% of profit for the year attributable to the shareholders of the Bank before KFAS, NLST, Zakat and Board of directors' remuneration is transferred to statutory reserve. The Bank may resolve to discontinue such annual transfers when the reserve equals 50% of the capital. This reserve is not available for distribution except in cases stipulated by law and the Bank's Articles of Association.

25. VOLUNTARY RESERVE

As required by the Bank's Articles of Association, 10% of profit for the year attributable to the shareholders of the Bank before Board of directors' remuneration is transferred to the voluntary reserve. Such annual transfers may be discontinued by a resolution of the shareholders' General Assembly upon a recommendation by the Board of Directors.

Voluntary reserve is available to be distributed to shareholders at the discretion of the general assembly in ways that may be deemed beneficial to the Bank, except for the amount equivalent to the cost of purchase of the treasury shares (Note 23).

26. SHARED BASED PAYMENT RESERVE

The Bank operates an equity settled share based compensation plan and granted share options to its senior executives. These options will vest if the employees remain in service for a period of three years from the grant date and the employees can exercise the options within one year from the vesting date. If the exercise price is not paid within one year from date of vesting, the options vested will be cancelled. The exercise price of the granted options is equal to 100 fils per share.

The fair value of options granted during the year as determined using the Black-Scholes valuation model was **476 fils** (2013: 546 fils). The significant inputs into the model were a share price of **570 fils** (2013: 640 fils) at the grant date, an exercise price of 100 fils as shown above, a standard deviation of expected share price returns of **19%** (2013: 26%), option life disclosed above and annual risk free rate of 2%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the last three years. The weighted average remaining life of the share options was **481 days** (2013: 575 days) and the weighted average fair value of share options granted was **500 fils** (2013: 530 fils).

The following table shows the movement in number of share options during the year:

	2014 Number of share options	2013 Number of share options
Outstanding at 1 January	**2,369,156**	**1,900,216**
Granted during the year	**1,259,683**	**897,233**
Cancelled during the year	**(418,814)**	**(428,293)**
Exercised during the year	**(799,380)**	**-**
Outstanding at 31 December	**2,410,645**	**2,369,156**

The expense accrued on account of share based compensation plans for the year amounts to **KD 406 thousand** (31 December 2013: KD 323 thousand) and is included under staff costs in the consolidated statement of profit or loss. During the year certain employees have exercised their stock options of **799,380 shares** and these shares have been issued from treasury shares held by the Bank.

27. 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 members, 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 member or executive officers		Number of related parties			
	2014	2013	**2014**	2013	**2014**	2013
					KD'000	KD'000
Islamic financing to customers	**10**	7	**1**	2	**4,650**	5,745
Depositors' accounts	**15**	11	**8**	9	**32,932**	29,465
Letters of guarantee and letters of credit	**1**	1	**-**	-	**18**	18
Revenues					**103**	202
Expenses					**(17)**	(173)
Parent Company						
Due from banks					**8,366**	92,401
Due to banks					**42,554**	87,612
Revenues					**271**	279
Expenses					**(290)**	(150)

The Group holds collaterals against Islamic finance facilities to related parties in the form of shares and real estate. An estimate of the fair value of collaterals held against Islamic finance facilities to related parties amounted to **KD 4,770 thousand** as at 31 December 2014 (31 December 2013: KD 1,271 thousand).

Compensation of key management personnel:

Details of compensation for key management comprise the following:

	2014	2013
	KD'000	KD'000
Short-term benefits	**1,780**	1,904
Post-employment benefits	**283**	299
Share based compensation	**279**	226
	2,342	2,429

Senior executive officers also participate in the Group's share based payment programme (see note 26).

28. 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:

	2014	2013
	KD'000	KD'000
Guarantees	**172,768**	166,952
Acceptances and letters of credit	**43,120**	26,872
Capital commitments (projects under construction)	**914**	411
	216,802	194,235

29. 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.

2014	Consumer banking KD'000	Corporate banking KD'000	Investment banking KD'000	Treasury KD'000	Group centre KD'000	**Total KD'000**
Net financing income/(loss)	**36,952**	**24,572**	**(1,895)**	**4,980**	**1,599**	**66,208**
Share of results of associates	**-**	**-**	**(247)**	**-**	**-**	**(247)**
Operating income/(loss)	**38,440**	**29,476**	**5,899**	**6,332**	**(1,742)**	**78,405**
Depreciation	**(1,248)**	**(57)**	**(54)**	**(9)**	**(810)**	**(2,178)**
Net profit/ (loss) for the year	**20,548**	**18,447**	**118**	**5,983**	**(16,591)**	**28,505**
Total assets	**791,539**	**1,176,156**	**192,601**	**520,509**	**(32,875)**	**2,647,930**
Total liabilities	**782,442**	**190,718**	**19,115**	**1,344,421**	**10,132**	**2,346,828**

2013	Consumer banking KD'000	Corporate banking KD'000	Investment banking KD'000	Treasury KD'000	Group centre KD'000	Total KD'000
Net financing income/(loss)	30,347	23,642	(3,787)	8,076	2,464	60,742
Share of results of associates	-	-	726	-	-	726
Operating income/(loss)	30,799	27,817	(1,585)	9,052	989	67,072
Depreciation	(987)	(44)	(47)	(15)	(606)	(1,699)
Net profit/(loss) for the year	16,365	11,829	(9,341)	8,641	(14,774)	12,720
Total assets	584,980	987,148	183,256	477,174	(40,572)	2,191,986
Total liabilities	650,861	158,846	19,460	1,092,695	637	1,922,499

Geographical segment

In presenting information on the basis of geographical areas, revenue is based on the geographical location of customers and assets are based on the geographical location of assets.

2014	Middle East & North Africa KD'000	North America KD'000	Europe KD'000	Asia KD'000	**Total KD'000**
Assets	**2,425,562**	**3,195**	**131,830**	**87,343**	**2,647,930**
Non-current assets (excluding financial instruments)	**46,309**	**-**	**5,774**	**-**	**52,083**
Liabilities and equity	**2,644,560**	**-**	**3,370**	**-**	**2,647,930**
Segment income/(expenses)	**78,736**	**285**	**917**	**(1,533)**	**78,405**

2013	Middle East & North Africa KD'000	North America KD'000	Europe KD'000	Asia KD'000	Total KD'000
Assets	2,047,169	1,253	100,040	43,524	2,191,986
Non-current assets (excluding financial instruments)	49,730	-	4,461	-	54,191
Liabilities and equity	2,188,007	30	3,803	146	2,191,986
Segment income/(expenses)	69,112	-	(2,157)	117	67,072

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

30.1 Introduction and overview

Risk is inherent in the Group's activities but is managed in a structured, systematic manner through a Group risk policy that embeds comprehensive risk management into organisational structure, risk measurement and monitoring processes. The overall risk management direction and oversight is provided by the Board of Directors and Board Risk Committee with the support of the Management Executive Committee and the Group's Risk Management functions.

The Group is exposed to credit risk, market risk, liquidity risk and operational risk.

In accordance with the Central Bank of Kuwait's directives, the Group has implemented a comprehensive system for the measurement and management of risk. This methodology helps in reflecting both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. Information compiled from all internal business groups are closely examined and analysed to identify, manage and control risks.

Transactions and outstanding risk exposures are quantified and compared against authorised limits, whereas non- quantifiable risks are monitored against policy guidelines and key risk and control indicators. Any discrepancies, excesses or deviations are escalated to management for appropriate action.

As part of its overall risk management, the Group uses financial instruments to manage exposures resulting from changes in foreign exchange and equity risks. Collateral is used to reduce the Group's credit risk.

The Group's comprehensive risk management framework has specific guidelines that focus on maintaining a diversified portfolio to avoid excessive concentration of risks.

30.2 Credit risk

Credit risk is the risk that counterparty will cause a financial loss to the Group by failing to discharge an obligation. Credit risk arises in the Group's normal course of business.

All policies relating to credit are reviewed and approved by the Board of Directors.

Credit limits are established for all customers after a careful assessment of their creditworthiness. Standing procedures, outlined in the Group's Credit Policy Manual, require that all credit proposals be subjected to detailed screening by the respective credit risk functions. Whenever necessary, Islamic facilities are secured by acceptable forms of collateral to mitigate the related credit risks.

In accordance with the instructions of the Central Bank of Kuwait, setting out the rules and regulations regarding the classification of credit facilities, the Group has formed an internal committee comprising competent professional staff and having as its purpose the study and evaluation of the existing credit facilities of each customer of the Group. This committee, which meets regularly throughout the year, is required to identify any abnormal situations and difficulties associated with a customer's position which might cause the debt to be classified as irregular, and to determine an appropriate provisioning level.

The Group further limits risk through diversification of its assets by industry sector. In addition, all credit facilities are continually monitored based on a periodical review of the credit performance and account rating.

30.2.1 *Maximum exposure to credit risk (Net exposure after covered collateral)*

An analysis of Islamic financing to customers and contingent liabilities before and after taking account of collateral held or other credit enhancements is as follows:

	2014		2013	
	Gross exposure	**Net exposure**	Gross exposure	Net exposure
	KD'000	**KD'000**	KD'000	KD'000
Islamic financing to customers	**1,805,115**	**1,157,148**	1,478,701	978,066
Contingent liabilities	**216,802**	**182,624**	194,235	186,130

Collateral and other credit enhancements

The amount, type and valuation of collateral are based on guidelines specified in the risk management framework. The main types of collateral accepted includes real estate, shares, cash collateral and bank guarantees. The revaluation and custody of collaterals are performed independent of the business units. The Group may also obtain guarantees from parent companies for financing provided to their subsidiaries.

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.2 Credit risk (Continued)

30.2.2 *Risk Concentration of the maximum exposure to credit risk*

Concentrations of credit risk arise from exposure to customers having similar characteristics in terms of the geographic location in which they operate or the industry sector in which they are engaged, such that their ability to discharge contractual obligations may be similarly affected by changes in political, economic or other conditions.

Credit risk can also arise due to a significant concentration of Group's assets to any single counterparty. This risk is managed by diversification of the portfolio. The 20 largest facilities outstanding as a percentage of gross facilities as at 31 December 2014 are **22.1%** (2013: 25.6%).

The Group's financial assets and off-balance sheet items, before taking into account any collateral held or credit enhancements can be analysed by the following geographic regions:

	Middle East & North Africa	North America	Europe	Asia	**Total**
2014	KD'000	KD'000	KD'000	KD'000	**KD'000**
Cash and cash equivalents (excluding cash on hand)	**265,623**	**3,164**	**18,321**	**3,158**	**290,266**
Due from banks	**224,431**	**-**	**39,162**	**-**	**263,593**
Islamic financing to customers	**1,797,440**	**-**	**4,423**	**3,252**	**1,805,115**
Available for sale investments (Sukuk)	**28,842**	**-**	**8,090**	**41,050**	**77,982**
Other assets (excluding accrued income and prepayments)	**5,558**	**-**	**-**	**-**	**5,558**
	2,321,894	**3,164**	**69,996**	**47,460**	**2,442,514**
Contingent liabilities	**208,377**	**-**	**371**	**7,140**	**215,888**
Commitments	**914**	**-**	**-**	**-**	**914**
Total credit risk exposure	**2,531,185**	**3,164**	**70,367**	**54,600**	**2,659,316**

	Middle East & North Africa	North America	Europe	Asia	Total
2013	KD'000	KD'000	KD'000	KD'000	KD'000
Cash and cash equivalents (excluding cash on hand)	176,301	1,206	8,022	247	185,776
Due from banks	266,883	-	31,988	-	298,871
Islamic financing to customers	1,471,227	-	4,446	3,028	1,478,701
Available for sale investments (Sukuk)	29,084	-	2,205	-	31,289
Other assets (excluding accrued income and prepayments)	6,506	-	-	-	6,506
	1,950,001	1,206	46,661	3,275	2,001,143
Contingent liabilities	185,487	-	313	8,024	193,824
Commitments	27,744	-	7,095	-	34,839
Total credit risk exposure	2,163,232	1,206	54,069	11,299	2,229,806

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.2 Credit risk (Continued)

30.2.2 *Risk Concentration of the maximum exposure to credit risk (Continued)*

The Group's financial assets before taking into account any collateral held or credit enhancements, can be analysed by the following industry sectors:

	2014	2013
	KD'000	KD'000
Trading	**145,864**	134,362
Manufacturing	**73,327**	76,872
Banking and other financial institutions	**600,315**	520,150
Construction	**33,503**	40,525
Real Estate	**503,037**	394,106
Retail	**764,658**	557,084
Government	**182,914**	106,086
Others	**138,896**	171,958
	2,442,514	2,001,143

30.2.3 *Credit quality per class of financial assets*

In managing its portfolio, the Group utilises ratings and other measures and techniques which seek to take account of relevant aspects of perceived risk. Credit exposures classified as 'High' quality are those where the ultimate risk of financial loss from the obligor's failure to discharge its obligation is assessed to be low. These include facilities to corporate entities with financial condition, risk indicators and capacity to repay which are considered to be good to excellent. Credit exposures classified as 'Standard' quality comprise all other facilities whose payment performance is fully compliant with contractual conditions and which are not impaired. The ultimate risk of possible financial loss on 'Standard' quality is assessed to be higher than that for the exposures classified within the 'High' quality range.

The table below shows the credit quality by class of asset for statement of financial position lines, based on the Group's credit rating system.

	Neither past due nor impaired			
	High	Standard	Past due or impaired	**Total**
	KD'000	KD'000	KD'000	**KD'000**
2014				
Cash and cash equivalents (excluding cash on hand)	**290,266**	**-**	**-**	**290,266**
Due from banks	**263,593**	**-**	**-**	**263,593**
Islamic financing to customers	**1,663,270**	**138,771**	**43,163**	**1,845,204**
Available for sale investments (Sukuk)	**77,982**	**-**	**-**	**77,982**
Other assets (excluding accrued income and prepayment)	**5,558**	**-**	**-**	**5,558**
	2,300,669	**138,771**	**43,163**	**2,482,603**
2013				
Cash and cash equivalents (excluding cash on hand)	185,776	-	-	185,776
Due from banks	298,871	-	-	298,871
Islamic financing to customers	1,290,782	177,514	45,857	1,514,153
Available for sale investments (Sukuk)	31,289	-	-	31,289
Other assets (excluding accrued income and prepayment))	6,506	-	-	6,506
	1,813,224	177,514	45,857	2,036,595

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.2 Credit risk (Continued)

30.2.3 *Credit quality per class of financial assets (Continued)*

Ageing analysis of past due or impaired financial assets:

	Corporate banking		Consumer banking		**Total**	
	Past due and not impaired	Past due and impaired	Past due and not impaired	Past due and impaired	**Past due and not impaired**	**Past due and impaired**
	KD'000	KD'000	KD'000	KD'000	**KD'000**	**KD'000**
2014						
Up to 30 days	**5,883**	**-**	**9,132**	**-**	**15,015**	**-**
31 – 60 days	**779**	**-**	**3,587**	**-**	**4,366**	**-**
61 – 90 days	**1,709**	**-**	**1,798**	**-**	**3,507**	**-**
91 – 180 days	**-**	**-**	**-**	**2,393**	**-**	**2,393**
More than 180 days	**-**	**16,654**	**-**	**1,228**	**-**	**17,882**
	8,371	**16,654**	**14,517**	**3,621**	**22,888**	**20,275**
2013						
Up to 30 days	5,151	-	8,260	-	13,411	-
31 – 60 days	6	-	2,239	-	2,245	-
61 – 90 days	163	-	1,260	-	1,423	-
91 – 180 days	-	-	-	1,475	-	1,475
More than 180 days	-	26,404	-	899	-	27,303
	5,320	26,404	11,759	2,374	17,079	28,778

At 31 December 2014 management estimates the fair value of collaterals held against individually past due or impaired Islamic finance facilities to **KD 24,665 thousand** (31 December 2013: KD 24,411 thousand).

30.3 Market risk

Market risk is the risk that the fair value of financial instruments will fluctuate due to changes in market prices. Market risks arise from open positions in currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of prices such as foreign exchange rates and equity prices.

The Group is not exposed to material risk in terms of the re-pricing of its liabilities since, in accordance with Islamic Sharia'a, the Group does not provide a guaranteed contractual rate of return to its depositors.

Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign currency exchange rates.

Foreign exchange risks are controlled through limits pre-established by the Board of Directors on currency position exposures. Assets are typically funded in the same currency as that of the business being transacted to eliminate exchange exposures. Appropriate segregation of duties exists between the treasury front and back office functions, while compliance with position limits is independently monitored on an ongoing basis by an independent middle office function.

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.3 Market risk (Continued)

The table below analyses the effect on profit and equity of an assumed 5% strengthening in value of the currency rate against the Kuwaiti Dinar from levels applicable at the year end, with all other variables held constant. A negative amount in the table reflects a potential net reduction in profit or equity, whereas a positive amount reflects a net potential increase.

		2014		2013	
		Effect on profit	**Effect on equity**	Effect on profit	Effect on equity
		KD'000	**KD'000**	KD'000	KD'000
US Dollar	+5	**96**	**-**	(132)	-
Sterling Pound	+5	**(1)**	**-**	2	-
Euro	+5	**-**	**-**	1	-
Indonesian Rupiah	+5	**-**	**1,994**	-	2,012
Sudanese Pound	+5	**33**	**251**	14	224
Japanese Yen	+5	**-**	**-**	-	-
Others	+5	**24**	**-**	9	-

A 5 percent decrease of the above currencies against the Kuwaiti Dinar would have had equal, but opposite, effect of the amounts shown above, on the basis that all other variables remain constant.

Equity price risk

Equity price risk arises from the change in fair values of equity investments. The Group manages this risk through diversification of investments in terms of geographical distribution and industry concentration.

For such investments classified as available for sale, a five percent increase in stock prices as at 31 December 2014 would have increased equity by **KD 691 thousand** (31 December 2013: an increase of KD 669 thousand). For such investments classified as at fair value through profit or loss, the impact on profit or loss would have been an increase of **KD 150 thousand** (31 December 2013: an increase of KD 197 thousand). An equal change in the opposite direction would have had equal, but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.4 Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its financial liabilities when they fall due. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind and monitors liquidity on a daily basis.

The Group has established an Asset and Liabilities Management Committee to manage the assets and liabilities of the Group comprehensively and strategically. The committee meets regularly to determine and review policies for managing liquidity risk, as well as to set risk limits.

The table below summarises the maturity profile of Group's assets, liabilities and equity based on contractual cash flows, maturity dates or on management's estimate of liquidation. This does not necessarily take account of the effective maturities.

	Up to three months	3 to 6 months	6 to 12 Months	Over 1 year	**Total**
	KD'000	KD'000	KD'000	KD'000	**KD'000**
2014					
Assets					
Cash and cash equivalents	**314,821**	**-**	**-**	**-**	**314,821**
Due from banks	**186,718**	**52,085**	**24,790**	**-**	**263,593**
Islamic financing to customers	**639,047**	**257,104**	**101,445**	**807,519**	**1,805,115**
Financial assets at fair value through profit or loss	**-**	**-**	**-**	**12,738**	**12,738**
Available for sale investments	**40,016**	**-**	**4,354**	**69,482**	**113,852**
Investments in associates	**-**	**-**	**-**	**85,728**	**85,728**
Investment properties	**-**	**-**	**-**	**25,637**	**25,637**
Other assets	**5,558**	**-**	**5,386**	**-**	**10,944**
Property and equipment	**-**	**-**	**-**	**15,502**	**15,502**
Total assets	**1,186,160**	**309,189**	**135,975**	**1,016,606**	**2,647,930**
Liabilities and Equity					
Due to banks	**201,221**	**5,006**	**20,512**	**-**	**226,739**
Depositors' accounts	**1,247,238**	**493,890**	**341,715**	**11,061**	**2,082,854**
Other liabilities	**16,915**	**-**	**11,018**	**9,302**	**37,235**
Equity	**-**	**-**	**-**	**301,102**	**301,102**
Total liabilities and equity	**1,465,374**	**498,896**	**373,245**	**310,415**	**2,647,930**

	Up to three months	3 to 6 months	6 to 12 months	Over 1 year	**Total**
	KD'000	KD'000	KD'000	KD'000	**KD'000**
2013					
Assets					
Cash and cash equivalents	205,622	-	-	-	205,622
Due from banks	222,492	72,865	3,514	-	298,871
Islamic financing to customers	587,699	236,008	80,650	574,344	1,478,701
Financial assets at fair value through profit or loss	-	-	-	5,866	5,866
Available for sale investments	2,213	5,718	-	55,113	63,044
Investments in associates	-	-	-	85,691	85,691
Investment properties	-	-	-	30,245	30,245
Other assets	6,506	-	5,010	-	11,516
Property and equipment	-	-	-	12,430	12,430
Total assets	1,024,532	314,591	89,174	763,689	2,191,986
Liabilities and Equity					
Due to banks	202,437	7,730	-	25,851	236,018
Depositors' accounts	1,010,366	329,081	293,427	24,524	1,657,398
Other liabilities	11,992	-	9,309	7,782	29,083
Equity	-	-	-	269,487	269,487
Total liabilities and equity	1,224,795	336,811	302,736	327,644	2,191,986

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.4 Liquidity risk (Continued)

The liquidity profile of financial liabilities of the Group summarised below reflects the projected cash flows including future profit payments over the life of these financial liabilities based on contractual repayment arrangements.

	Up to three months	3 to 6 months	6 to 12 months	Over 1 year	**Total**
2014	KD'000	KD'000	KD'000	KD'000	**KD'000**
Financial Liabilities					
Due to banks	**201,264**	**5,031**	**20,832**	**-**	**227,127**
Depositors' accounts	**1,249,795**	**498,050**	**342,907**	**200**	**2,090,952**
	1,451,059	**503,081**	**363,739**	**200**	**2,318,079**
2013					
Financial Liabilities					
Due to banks	202,479	8,634	-	28,024	239,137
Depositors' accounts	1,011,095	329,621	295,428	24,927	1,661,071
	1,213,574	338,255	295,428	52,951	1,900,208

30.5 Operational risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, systems failure, human error, or from external events. When controls fail to perform, it can lead to legal or regulatory implications, or financial /reputational loss.

The Group has established policies and procedures, which are applied to identify, assess, monitor, control and mitigate operational risk in addition to other types of risks relating to the banking and financial activities of the Group as part of overall risk management activities.

The operational risk of the Group is managed in line with the Central Bank of Kuwait's instructions concerning the general guidelines for internal controls and best practice for managing and supervising operational risks in banks.

30.6 Fair value of financial instruments

Fair values are obtained from quoted market prices, discounted cash flow models and other models as appropriate. The carrying values of financial instruments are approximate to their fair values at 31 December due to the relatively short-term maturity of the instruments.

Fair value of the Group's financial assets that are measured at fair value on a recurring basis.

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation techniques(s) and inputs used).

Fair values of remaining financial assets and liabilities carried at amortised cost are estimated using valuation techniques incorporating a range of input assumptions that are appropriate in the circumstances. Carrying value of financial assets and liabilities that are carried at amortised cost are not materially different from their fair values as most of these assets and liabilities are of short term maturities or are re-priced immediately based on market movement in profit rates.

Sensitivity analysis on fair value estimations, by varying input assumptions by a reasonable margin, did not indicate any material impacts on consolidated statement of financial position or consolidated statement of profit or loss.

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.6 Fair value of financial instruments (Continued)

Financial assets	Fair value as at		Fair value Hierarchy 2014	Sector
	31 December 2014	31 December 2013		
Financial assets at fair value through profit or loss - *Unquoted securities*	**-**	1,026	Level 3	Financial Institutions
	2,995	2,906	Level 3	Real Estate
Financial assets at fair value through profit or loss - *Unquoted funds*	**9,743**	1,934	Level 2	Financial Institutions
Available for sale investments - *Sukuk*	**19,802**	16,967	Level 1	Government
	58,180	14,322	Level 1	Financial Institutions
Available for sale investments - *Unquoted funds*	**9,064**	9,232	Level 2	Financial Institutions
	6,468	3,851	Level 2	Real Estate
	6,514	5,300	Level 2	Services
Available for sale investments - *Unquoted securities*	**2,018**	2,273	Level 3	Financial Institutions
	3,487	3,169	Level 3	Real Estate
	-	346	Level 3	Construction
	6,401	5,371	Level 3	Services
Available for sale investments - *Quoted securities*	**1,348**	1,643	Level 1	Real Estate
	570	570	Level 1	Financial Institutions

Fair value hierarchy

The table below analyses financial instruments carried 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: inputs other than quoted prices included within level 1 that are observable, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3: inputs that are not based on observable market data (unobservable inputs).

2014	**Level 1 KD'000**	**Level 2 KD'000**	**Level 3 KD'000**	**Total KD'000**
Financial assets at fair value through profit or loss	**-**	**9,743**	**2,995**	**12,738**
Available for sale investments	**79,900**	**22,046**	**11,906**	**113,852**
	79,900	**31,789**	**14,901**	**126,590**

2013	Level 1 KD'000	Level 2 KD'000	Level 3 KD'000	Total KD'000
Financial assets at fair value through profit or loss	-	1,934	3,932	5,866
Available for sale investments	33,502	18,383	11,159	63,044
	33,502	20,317	15,091	68,910

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.6 Fair value of financial instruments (Continued)

The following table shows a reconciliation of the opening and closing amount of level 3 financial assets.

	At 1 January 2014	**Change in fair value**	**Impairment**	**Additions**	**Sale/ redemption**	**Exchange rate movements**	**At 31 December 2014**
	KD 000's	**KD 000's**	**KD 000's**	**KD 000's**	**KD 000's**	**KD 000's**	**KD 000's**
Financial assets at fair value through profit or loss							
Unquoted securities	**3,932**	**89**	**-**	**-**	**(1,026)**	**-**	**2,995**
Available for sale investments							
Unquoted securities	**11,159**	**995**	**(662)**	**929**	**(634)**	**119**	**11,906**
	15,091	**1,084**	**(662)**	**929**	**(1,660)**	**119**	**14,901**

	At 1 January 2013	Change in fair value	Impairment	Additions	Sale/ redemption	Exchange rate movements	At 31 December 2013
	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's
Financial assets at fair value through profit or loss							
Unquoted securities	3,547	-	-	385	-	-	3,932
Available for sale investments							
Unquoted securities	45,396	331	(1,336)	7,501	(40,745)	12	11,159
	48,943	331	(1,336)	7,886	(40,745)	12	15,091

The significant unobservable inputs used in the fair value measurement categorised within Level 3 of the fair value hierarchy together with a quantitative sensitivity analysis as at 31 December 2014 are as shown below:

	Valuation technique	**Significant unobservable inputs**	**Range (weighted average)**	**Sensitivity of the input to fair value**
Financial assets at fair value through profit or loss – *unquoted securities*	Market approach	Discount for lack of liquidity	5%-10%	An increase (decrease) in the Discount rate by 1% would result in an increase (decrease) in fair value by **KD 30 thousand**.
Available for sale investments – *unquoted securities*	Market approach	Discount for lack of liquidity	5%-10%	An increase (decrease) in the Discount rate by 1% would result in an increase (decrease) in fair value by **KD 119 thousand.**

The discount for lack of marketability represents the amounts that the Group has determined that market participants would take into account when pricing the investments.

In the case of available for sale investments, the impairment charge in the profit or loss would depend on whether the decline is significant or prolonged. An increase in the fair value would only impact equity (through Other Comprehensive Income) and, would not have an effect on profit or loss.

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.6 Fair value of financial instruments (Continued)

Fair values of remaining financial assets and liabilities carried at amortised cost are estimated using valuation techniques incorporating a range of input assumptions that are appropriate in the circumstances. Carrying value of financial assets and liabilities that are carried at amortised cost are not materially different from their fair values as most of these assets and liabilities are of short term maturities or are repriced immediately based on market movement in profit rates.

Sensitivity analysis on fair value estimations, by varying input assumptions by a reasonable margin, did not indicate any material impacts on consolidated statement of financial position or consolidated statement of profit or loss.

30.7 Capital management

The primary objectives of the Group's capital management are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains strong and healthy capital ratios in order to support its business and to maximize shareholders' value.

The Group actively manages its capital base in order to cover risks inherent in the business. The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision (BIS rules/ratios) and adopted by the Central Bank of Kuwait in supervising the Group.

The Group's regulatory capital and capital adequacy ratios for the year ended 31 December 2014 are calculated in accordance with Central Bank of Kuwait circular number 2/RB, RBA/336/2014 dated 24 June 2014 related to Basel III regulations which are shown below:

	2014
	KD'000
Risk weighted assets	**1,356,592**
Capital required	**162,791**
Capital available	
Tier 1 capital	**229,050**
Tier 2 capital	**15,879**
Total capital	**244,929**
Tier 1 capital adequacy ratio	**16.88%**
Total capital adequacy ratio	**18.05%**

For the year ended 31 December 2013, the Group followed Basel II regulations and the Group's regulatory capital and capital adequacy ratios as calculated in accordance with Central Bank of Kuwait circular number 2/RBA/244/2009 dated 15 June 2009 are shown below.

	2013
	KD'000
Risk weighted assets	1,149,157
Capital required	137,899
Capital available	
Tier 1 capital	200,264
Tier 2 capital	-
Total capital	200,264
Tier 1 capital adequacy ratio	17.43%
Total capital adequacy ratio	17.43%

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.7 Capital management (Continued)

The Group's financial leverage ratio for the year ended 31 December 2014 is calculated in accordance with Central Bank of Kuwait circular number 2/RBA/ 343/2014 dated 21 October 2014 and is shown below:

	2014
	KD'000
Tier 1 capital	229,050
Total exposure	2,773,982
Financial leverage ratio	**8.26%**

The Group has disclosed the financial leverage ratio for the first time in the consolidated financial statements for the year ended 31 December 2014.

The disclosures relating to the capital adequacy regulations issued by Central Bank of Kuwait as stipulated in Central Bank of Kuwait's circular number 2/RB, RBA/336/2014 dated 24 June 2014 and disclosures related to financial leverage ratio as stipulated in Central Bank of Kuwait's circular number 2/RBA/ 343/2014 dated 21 October 2014 for the year ended 31 December 2014 are included under the 'Risk Management' section of the annual report.

31. DERIVATIVES

In the ordinary course of business, the Bank enters into various types of transactions that involve Sharia'a approved derivative financial instruments to mitigate foreign currency risk. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price of one or more underlying financial instruments, reference rate or index.

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

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

The positive fair value of forward foreign exchange contracts outstanding as of 31 December 2014 is **KD 3 thousand** (2013: KD 10 thousand) and their notional amounts outstanding as of 31 December 2014 are **KD 43 thousand** (2013: KD 365 thousand)

The Group's derivative trading activities mainly related to deals with customers, which are normally matched by entering into reciprocal spot deals with counterparties.

32. FIDUCIARY ASSETS

The aggregate value of assets held in a trust or fiduciary capacity by the Group amounted to **KD 99,804 thousand** (31 December 2013: KD 78,905 thousand) and the related income from these assets amounted to **KD 307 thousand** (31 December 2013: KD 294 thousand).