بنك بوبيان
Boubyan Bank

ANNUAL REPORT 2015

Towards perfection

In the Name of Allah, Most Gracious, Most Merciful

"Verily, Allah is the All-Provider,
Possessor of Power, the Mighty"

True are the words of Allah, the Almighty

## Contents





H.H. Sheikh
**Sabah Al-Ahmad Al-Jaber Al-Sabah**
Emir of the State of Kuwait

H.H. Sheikh
**Nawaf Al-Ahmad Al-Jaber Al-Sabah**
Crown Prince

H.H. Sheikh
**Jaber Al-Mubarak Al-Hamad Al-Sabah**
Prime Minister

## Board of Directors

**Mahmoud Yousef Al-Fulaij**
Chairman

**Adel Abdul Wahab Al-Majed**
Vice-Chairman & CEO

Abdulaziz Abdullah Al-Shaya
Board Member

Ahmad Khalid Al-Humaizi
Board Member

Ahmed Yousef Al-Sager
Board Member

Farid Soud Al-Fozan
Board Member

Hazim Ali Al-Mutairi
Board Member

Nasser Abdulaziz Al-Jallal
Board Member

Waleed Mishari Al-Hamad
Board Member

## Executive Management

| | |
|---|---|
| **Adel Abdul Wahab Al-Majed** | Vice-Chairman & CEO |
| **Abdulla Al-Najran Al-Tuwaijri** | Deputy Chief Executive Officer |
| **Abdul-Salam Mohammed Al-Saleh** | Deputy Chief Executive Officer |
| **Waleed Khalid Al-Yaqout** | General Manager - Administration Group |
| **Adel Abdullah Al Hammad** | General Manager - Human Resources Group |
| **Dr. Waleed Eisa Al-Hasawi** | General Manager - Information Technology Group |
| **Ashraf Abdallah Sewilam** | General Manager – Corporate Banking Group |
| **Leslie James Rice** | General Manager - Risk Management |
| **Abdul Rahman Hamza Mansour** | General Manager - Internal Audit |
| **Mohamed Ibrahim Ismail** | General Manager - Financial Control Group |
| **Rajeev Kale** | General Manager - Banking Operations Group |
| **Mukkulam Jamal Jaffar** | Deputy General Manager - Treasury Services |
| **Saleh Ahmad Al-Ateeqi** | Chief Executive Officer - Boubyan Capital |

## Fatwa & Shari'a Supervisory Board

| | |
|---|---|
| **Sheikh Dr. Abdulaziz Khalifa Al-Qasar** | Chairman |
| **Sheikh Dr. Esame Khalaf Al-Enezi** | Member/Reporter |
| **Sheikh Dr. Mohammed Awad Al-Fuzaie** | Member |
| **Sheikh Dr. Ali Ibrahim Al-Rashid** | Member |

## Chairman's Message

By the Grace of Allah, the Almighty, Boubyan Bank managed to perform well and to achieve profitable financial results during 2015 despite the domestic and regional economic challenges resulting from the decline in oil and gas prices in addition to the tight competition in the banking industry.

For myself, and on behalf of the Board members, and the executive management of the Bank, I am pleased to share with you the 2015 Annual Report which includes the financial statements of the Bank and a summary of the Bank's activities during the said year, highlighting the Bank's achievements and successes at various levels.

### Continuing Our Journey of Growth and Success

Boubyan Bank has continued its growing profits, reaching an increased growth rate of 25% at the end of 2015. The Bank's net profits amount to KD 35.2 million compared with KD 28.2 million in 2014, while the earning per share amounts to 17.09 fils compared with 13.70 fils for 2014.

It is worth mentioning that this growth in the Bank's profitability is mainly attributed to the success bestowed by Allah, the Almighty, upon us as well as shareholders' and customers' confidence in the Bank, and the efforts exerted by all the Bank staff and their unwavering dedication and keenness on delivering the highest service levels to customers coupled with innovation and creativity, which have been adopted by the Bank since the launch of the first 5-year strategy in 2010.

All the Bank's indicators witnessed a remarkable growth during 2015 where the total assets increased to KD 3.1 billion at a growth rate of 18% while the operational revenues increased to hit KD 91.4 million with a growth rate of 17% in addition to the increase in customers' deposits by 15%, amounting to KD 2.4 billion.

The total equity of the Bank increased to KD 318 million compared with KD 269 million last year and there was a notable increase in the financing portfolio up to KD 2.2 billion at a growth rate of 20% in line with the continuous growth of the Bank's customers base.

As a result of the financial performance of the year ended December 31st 2015, the Board recommended the distribution of cash dividends of 5% per nominal share value (i.e., 5 fils per share) and 5% in bonus shares (i.e., 5 shares per each 100 shares).

With regard to the market share, our market share in local finance increased generally to approximately 6.5% in the meantime, while the share of the retail finance increased specifically to approximately 10%.

### Enhancing the Capital Base

As a part of our efforts to enhance our capital base, Boubyan Bank obtained the initial approval of the Central Bank of Kuwait to proceed with sukuk issuance in order to enhance its capital base through Common Equity Tier 1 (CET1) as per Basel III instructions on a mudaraba basis, and it is expected that the total issuance would amount to USD 250 million approximately. Boubyan Bank will take the final decision on the said issuance and the timing thereof after obtaining the final approvals from the regulatory authorities.

This issuance coincides the completion of the 1st year of the 2020 strategy that followed the 5-year strategy (2010-2014) which witnessed a lot of achievements and goals made by the bank.

### The Best in Technology

During the past years, creativity and innovation have been two of the main values adopted in the Bank's business philosophy. The Bank was most keen on reinforcing such values by embodying them in the innovative digital and electronic products and services which were usually introduced by the Bank for the first time in the Kuwaiti market such as the operation of advanced MiniBank machines that provide multiple services in addition to other services such as Cardless & Civil ID Withdrawal, updating customers' information via the ATMs, issuance of virtual cards, and use of fingerprints in smart phone applications to enable customers' login, etc.

This strategy has crowned the Bank with many achievements such as earning a number of international awards, the most prominent of which was "the World's Best Islamic Digital Bank" award in the field of e-banking "digital" services from Global Finance for the year 2015.

Boubyan Bank's achievement in the field of e-banking services or digital services is the fruit of many years of efforts and investments injected by the Bank's management which emphasized the management's foresight, and its strategy which bears fruit currently, especially since focusing on investing in technology is part of the Bank's strategy which focuses on customers and considers them the main pillar of development sought by the Bank as well as the pillar of any targeted success.

### Leadership, Exclusiveness of Distinguished Services and Customer Service

In addition to being the leader in digital and e-banking services, the Bank has a number of exclusive and outstanding banking products and services which were first introduced in the Kuwaiti market by the Bank.

The Bank managed to establish itself as one of the best institutions in the Kuwaiti private sector in the field of customer service evidenced by its recent accomplishments whereby the Bank has received three awards from Service Hero, the international consumer-driven customer satisfaction index. The most prominent of these awards was the 1st Place in Customer Service atop all companies in Kuwait.

This kind of awards, once more, reiterates our Bank's superb competitive abilities, and its ability to provide customers with the highest levels of service and the best products customers may seek, whether they are existing or potential customers targeted in the Kuwaiti market.

Being the leader, in terms of customer service, was perfectly timed with the geographical expansion as the number of branches reached 32 by the end of the year in line with our plan which targets 40 branches by the end of 2016.

### Outstanding Corporate Services

Boubyan Bank set a goal to be "the first choice and preferred destination for customers seeking corporate banking services". Currently, the Corporate Banking Group maintains strong relationships with a number of national companies working in productive economic sectors, while still targeting medium and large sized companies in order to provide the best banking service.

As a part of our Bank's continuous efforts to develop services and ensure customers' satisfaction in a manner that suits their banking expectations and needs, the Corporate Banking Group has launched the first service offered by a Kuwaiti bank to enable bank customers to open documentary credits and issue guarantees over the internet in addition to the ability to develop a working capital murabaha, which provides flexibility in terms of withdrawal and deposits for companies in a manner that matches their cash flows.

Boubyan Bank managed to achieve remarkable growth rates in 2015 where the credit portfolio reached 17% via attracting a number of operational companies known for their financial and economic creditworthiness while continuing to maintain the high standards of credit quality and studying and diversifying risks.

## Chairman's Message

Furthermore, the Corporate Banking Group managed in 2015 to arrange and manage a number of syndicated loans with local and regional Banks such as cooperating with the Arab Banking Corporation to arrange and manage a syndicated loan amounting to USD 320 million to Kuwait International Bank. The Corporate Banking Group arranged and managed as well a finance to Türkiye Finans Bank in collaboration with HSBC and Standard Chartered.

### Our Human Resources

Boubyan Bank gives a special attention to its human resources as a part of the Bank's approach being a developed and modern bank keeping up with international and regional changes through having a young management, and the Consumer Banking Group, which comprised mostly of youths, testifies to this.

The Bank is distinguished by entrusting the youths with more distinguished and leading roles, especially that all training and academic facilities and capabilities are available to provide them with a unique opportunity to gain professional and practical expertise that would boost their experiences despite their young age. Furthermore, Boubyan Bank has succeeded over the past years in creating many vacancies for ambitious Kuwaiti youths as a result of expanding the Bank's services provided to retail customers by opening more branches.

This made our Bank an attractive choice to the Kuwaiti youths who are interested in working for the private sector in general, and the banking industry in specific, due to the environment of creativity and innovation prevalent at the Bank, which unleashes the youths' energy.

This has further helped Boubyan Bank earn the award for the "Replacement and Nationalization of Manpower in Kuwait" for the second year in a row. The award is given on an annual basis by the Council for the Ministers of Labor for the best GCC institution.

Receiving this outstanding award was the fruit of ceaseless efforts throughout the past years where the Bank managed to increase the levels of national manpower up to 75%. This percentage is not only considered among the highest at the level of Kuwaiti banks, but also at the level of the Kuwaiti private sector. The Bank has become a role model to follow in the field of recruiting domestic manpower and creating distinctive job opportunities region-wise.

### Our Social Responsibility

The Bank continued its interaction with various segments of the society, especially the youth, who received support from the Bank at various levels and in different domains. There were more than 100 events and activities organized or sponsored by the Bank's departments in addition to the effective role played by the Bank's branches in providing services to their neighborhoods and interacting with various sectors.

Social responsibility is the cornerstone of the Bank's dealings with all groups of the society in contribution to development, and to building a society which is able to keep pace with all regional and international changes. Therefore, the Bank took the lead in launching a variety of social initiatives and sponsoring many activities and events targeting various groups of the society.

The Bank's social responsibility emanates from the fact that the bank operates in compliance with the principles of the Noble Islamic Shari'ah, and based on the spirit of Islam that enjoins cooperation, selflessness and helping various groups of the society, especially those in need or suffering from shortage in resources needed for daily life.



### Sound Governance

Boubyan Bank is committed to following a sound and effective governance framework through adopting the best sound governance and risk management standards. The Bank complies with these standards in concluding all transactions according to the principles and rulings of the Islamic Shari'ah. Boubyan Bank successfully follows in the path of updating its governance structure in a manner that meets the requirements of the Central Bank of Kuwait, and the banking industry-specific governance procedures.

Furthermore, the National Bank of Kuwait's acquisition of a significant stake in the Bank's shares back in 2009, with all its long-established expertise and deeply-rooted history, played a major role in supporting the Bank's new strategy and the new launch and expansion in the Kuwaiti market without compromising the Bank's crystal-clear Islamic identity while maintaining full operational segregation between both banks in order to comply with the principles and rulings of the Noble Islamic Shari'ah and, thus, enhancing the sound governance environment at Boubyan Bank.

### Thank You!

Finally, for myself and on behalf of all Boubyan Bank's employees, I would like to seize the opportunity to express deepest thanks, and appreciation to His Highness, the Amir of Kuwait, Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah, may Allah protect him as well as to H.H., the Crown Prince, Sheikh Nawaf Al-Ahmad Al-Jaber Al-Sabah, and H.H the Prime Minister, Sheikh Jaber Al-Mubarak Al-Hamad Al-Sabah, may Allah protect them all.

Moreover, I would like to express the deepest thanks to the executives of the Central Bank of Kuwait, headed by H.E., the Governor, Dr. Mohammad Al-Hashel, who spared no effort to take the actions deemed appropriate to develop and safeguard the Kuwaiti banking system.

I would also like to express deepest thanks to all the Bank's esteemed shareholders and customers who have always been the key element behind its support and who enabled it to confront the challenges. My deepest thanks are also extended to all members of the Bank's Fatwa and Shari'ah Supervisory Board, headed by Sheikh Dr. Abdulaziz Khalifa Al-Qasar, for their great efforts representing the guidelines for all the Bank's Islamic activities, services and dealings.

Finally, I would like to extend deepest appreciation to all Boubyan Bank's management and employees and thank them for their dedication as they spared no effort all through the past years, and I am pleased to express my appreciation of their constant adherence to the one-team spirit, to realize more success for our promising Bank. I hope that the coming years will be a new stage driving the Bank towards an unprecedented development leading it to more achievements and realization of objectives that place it among the leading Islamic banks in the region.

Peace be with you!

**Mahmoud Yousef Al-Fulaij**
Chairman

# Management Discussion and Analysis Report

Contents



## Introduction

Management Discussion and Analysis report provides an overview of the economic outlook, which directly influence the performance of banking sector in general, and then presents highlights on our strategy and financial performance.

## Economic Outlook

### Global Economy

The world economy has been more sluggish than expected driven by slow investment growth, lack of business and consumer confidence, weak productivity and several other business challenges. This puts pressure on the growth of global economy at least for the immediate future. International Monetary Fund expects the global growth projections for 2015 to be 3.1 percent.

On the monetary policy, the Federal Reserve in the United States raised interest rates by a quarter percent for the first time nearly in a decade and has indicated a gradual pace of further increases. The European Central Bank has decided to leave the interest rates unchanged. Investment and productivity is projected to improve in the Eurozone in the coming decade, paving the way for somewhat of an acceleration in growth. Year 2015 has been a rough year for emerging markets. Brazil and Russia, are experiencing a recession due to a collapse in commodity prices and geopolitical issues. Inflation has generally remained below central bank targets in advanced economies, an indication of continued substantial economic slack.

In its latest World Economic Outlook, the International Monetary Fund forecasts for global growth have been projected downward by 0.2% each in 2016 and 2017 due to gradual slowdown of economic activity in China, lower prices of energy and other commodities and gradual tightening of monetary policy in the United States. International Monetary Fund has projected global growth of 3.4% in 2016 and 3.6% in 2017. The drop in oil prices is expected to have some positive impact on oil importing countries. Falling oil prices could also curtail inflation around the world.

### Regional Economy

Oil prices have declined significantly since September 2015 thereby continuing to put pressure on fiscal and current account balances of GCC economies. Moody's expects that the GCC region will post a combined fiscal deficit of close to 10 percent of regional GDP in 2015 and 2016, compared to an average aggregate surplus of almost 9 percent between 2010 to 2014. Policy adjustments such as reductions in subsidy spending and measures to broaden the non-oil revenue base are expected in these economies. Debt issuances volumes are also expected to rise as financing needs increase.
The recovery in the MENA region as a whole has been fragile, owing to ongoing political transitions and recently intensified conflicts. The economies of countries in the MENA region, such as Egypt, Libya, Syria, Tunisia, Lebanon and Jordan, continue to suffer from these issues.

Research analysts estimate the growth in GCC countries, to average about 3.6 percent in 2015–16, with non-oil GDP growing by 4.7 percent and oil GDP rising by 2 percent. They also expect non-oil GDP growth in 2016 and 2017. If lower oil prices continues to be persistent, GCC economies will see their first fiscal deficits in years and may resort to debt. In the medium term GCC governments are keen on tackling subsidy reform, starting with fuel subsidies and may further rationalize spending and reduce economic inefficiencies. Gradual increase in interest rates are also expected.

Fitch expects 2016 to be a challenging year for GCC banks due to lower oil prices which is slowing economic growth thereby impacting liquidity and profitability. Liquidity position across banks are adequate but are coming under pressure due to fall in public sector deposits.

Moody's forecasts credit growth in the 4-10% range, as private sector declines are moderated by new government borrowings from local banks, helping to support profitability and margins. Robust capital levels of banks in the region will cushion the impact of further weaknesses in oil prices, economic growth and asset quality. Decline in loan growth and higher cost of funds are expected to reflect on banking sector profitability in the region.

### Kuwait Economy

Kuwait's fiscal position remains healthy. Kuwait's credit profile is expected to remain the most resilient, followed by Qatar and the UAE as per Moody's.

Research analysts believe that non-oil growth is expected to grow at 4-5% in 2016 and 2017 despite pressure from lower oil prices. While the government has taken some initiatives to rationalize current spending the impact on domestic economy is expected to be limited. Based on published research reports GDP growth is expected to be at 1.6% in 2015 and is expected to grow at 2.4% and 2.5% respectively in year 2016 and 2017. The fiscal deficit is not expected to exceed 6.2% of GDP in FY 2015/16 and could narrow down to 3.8% in FY 2016/17. The government

## Management Discussion and Analysis Report

has sufficient liquid funds to finance these deficits in the medium term without raising debt.

A weaker oil price scenario may put additional pressure on fiscal position and may result in expenditure cuts and delays in capital spending. Inflation is expected to average around 3.4% in 2015 and cool off to around 3% in 2016 and 2017. The Kuwaiti Dinar has strengthened along with the stronger dollar.

The consumer segment is a main source of growth in non-oil activity and the same trend is expected to continue in 2016 and 2017 which is supported by growth in employment and salaries particularly in the government sector. Real estate market is also expected to cool off in 2016.

### Banking Sector

The deposit portfolio of the local banks reached KD 39 billion by end of year 2015 with a compounded annual growth rate of 6% over the last five years. On the other side, the respective credit portfolio has reached KD 34 billion by end of year 2015 with a compounded annual growth rate of 5% over the last five years.

The banking sector in Kuwait has potentials for growth; however, the local market is highly competitive driven by the available resources of the banks and the entry of foreign and regional banks into the market. Hence, some of the local banks have increased their investment aboard, and may continue looking for opportunities abroad for expansion. Kuwaiti banks have lately seen some tightening in liquidity due the impact of lower oil prices.

On the monetary front, The Central Bank of Kuwait raised its benchmark discount rate by 25 bps to 2.25 percent on 16 December 2015 to maintain the competitiveness and attractiveness of the national currency and to avoid a massive capital outflow and the currency depreciation after the Federal Reserve raised rates for the first time in nine years.

On the regulatory front, there were no major changes except for the application of two new liquidity ratios under the Basel III framework; one is a short-term liquidity ratio, i.e. liquidity coverage ratio, and the other is a long-term liquidity ratio, i.e. the net stable funding ratio" which are expected to be applicable in the short term.

### Strategy Highlights

Boubyan Bank's first five year strategy which was developed in 2010 had completed its term in year 2014. The strategy emphasized on building Boubyan's franchise in Kuwait by focusing on specific consumer and corporate segments through providing superior customer services along with new and innovative products. The strategy of the Bank has been fruitful. Boubyan managed to improve on many fronts, and the transformation has been recognized by many regional and international bodies.

The Bank is currently implementing its second five year strategy - "Boubyan 2020" - which will focus on additional growth in Kuwait while exploring regional and international markets with strong Islamic banking potential. In Kuwait, the focus will be on introducing new products and targeting horizontal expansion in untapped banking and financing activities. Internationally, Boubyan is exploring markets with strong potential where the Bank is uniquely positioned. Boubyan's success is highlighted through a number of achievements:

- Steady growth in profitability and financial position since the turnaround in year 2010.
- Moody's assigned credit rating of D+ for the Bank financial strength, Baa1 for long-term deposits and a stable outlook.
- Fitch assigned Long term IDR of A+ and Viability rating of BB+.
- Fastest growing bank in Kuwait with total assets compounded annual growth rate of 25% between 2009-2015
- Non-Performing Financing ratio dropped to 0.9% in 2015 which is one of the lowest rates in the industry
- Awards from reputable organization such as Banker Middle East, Global Finance, EIS, VISA and Service Hero on growth and services respectively
- Reaching 32 branches, with additional 8 branches in the pipeline for 2016



### Financial Highlights

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| **Financial performance** | | | |
| Net financing income | 79,342 | 66,208 | 60,742 |
| Operating income | 91,353 | 78,405 | 67,072 |
| Net profit attributable to Equity holders of the Bank | 35,235 | 28,239 | 13,408 |
| Earnings per share – fils | 17.1 | 13.7 | 6.5 |
| **Financial position** | | | |
| Total assets | 3,132,885 | 2,647,930 | 2,191,986 |
| Financing receivables | 2,171,794 | 1,805,115 | 1,478,700 |
| Investments | 244,805 | 237,955 | 184,846 |
| Total depositors' accounts | 2,398,935 | 2,092,028 | 1,657,398 |
| Total equity | 318,232 | 296,027 | 263,944 |
| **Key performance ratios** | | | |
| Return on average assets | 1.2% | 1.2% | 0.7% |
| Return on average equity | 11.5% | 10.1% | 5.2% |
| Non-performing financing ratio | 0.9% | 1.1% | 1.9% |

For the year ended December 31, 2015, net profit attributable to Equity holders of the Bank increased by 25% to KD 35.2 Million, or 17.1 fils per share, from KD 28.2 Million, or 13.7 fils per share, in 2014.

Operating income increased by 17 % from 2015 to KD 91.3 Million compared to KD 78.4 Million in the year 2014. This increase was mainly driven by the growth in the net financing income and fees and commission income which represents the core businesses of the Bank. Net financing income rose by 20% to reach KD 79.3 Million compared to KD 66.2 Million in year 2014 and net fees and commission income grew by KD 1.9 Million; a growth of 32%. The improvement is resulting from strong balance sheet growth during 2015 which was driven by the successful implementation of Strategy.

Operating expenses increased by 10.6% to KD 39.2 Million, compared to KD 35.4 Million in 2014, driven primarily by the growth in business volumes and opening of new branches. However, as the growth in operating income was higher than the corresponding increase in operating expenses, the operating expenses to operating income ratio, which is the primary measure of efficiency, has been decreased to 42.9% in 2015 from 45.2% in 2014.

Provision for impairment increased by 16.2% to KD 15.1 Million as a result of conservative approach and to stabilize the bank's balance sheet. This led to reducing the non-performing financing ratio to 0.9% from 1.1% in 2014, which is one of the lowest rate in the market, along with higher coverage ratio.

Total assets grew by 18% in 2015 to reach KD 3.13 Billion. The growth is mainly driven by increase in financing portfolio which grew by 20% in 2015 to reach KD 2.2 Billion. Consumer and corporate finance grew by 27% and 16% respectively in 2015. Credit facilities growth was mainly from resident customers. The Bank continued to sustain asset quality of the credit growth thereby reducing NPL's.

Investments portfolio grew by 2.9% in 2015 to reach KD 245 Million. The growth is mainly from liquid Sukuk's which the bank uses to deploy surplus funds. The liquid assets to total assets was maintained at 25 % in 2015.

During 2015, customer deposits grew by 15% to reach KD 2.4 Billion.

The shareholders equity increased to KD 318 Million; a growth of 8% in 2015. The Board of Directors have proposed cash dividends of 5 Fils per share and stock dividends of 5% for the year 2015 which are subject to approval at the forthcoming Annual General Assembly meeting.

The Bank is strongly capitalized with a Capital Adequacy Ratio of 17.04%.

# Governance Report

## Contents



### Governance Statement

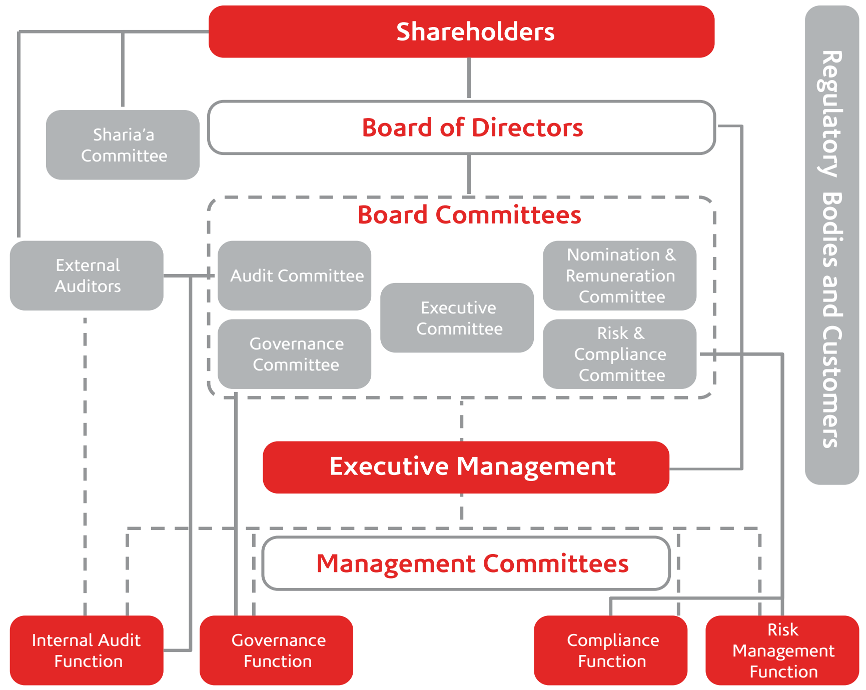
Governance is one of the key three pillars – in addition to Internal Control and Risk Management – to ensure achievement of goals and objectives of any organization. The governance is reflected in the set of processes, practices and structures, which affect the way an organization is directed, controlled, and monitored, and how its activities are reported for making proper decisions. It encompasses the Board structure, ethical values and practices, group structure, policies and procedures, internal control, risk management, transparency and disclosures, and protection of the interests of shareholders and stakeholders.

Accordingly, we are committed at Boubyan Bank to have a sound and effective governance framework, in line with our aim toward perfection, as it provides us the confidence that we are doing the right things to our shareholders and customers.

Further, we believe that the governance is an ongoing journey, which reaches milestones but continues to develop in line with the changes of control practices, business model, markets, and emerging risks. Our commitment toward sound governance commences from the top at Board level through adopting and implementing a well-developed and structured governance framework with high standards and professional practices; this is reflected across all levels of the Boubyan and its Group in line with the principles of professional responsibility and accountability.

In year 2015, Boubyan Bank ensured proper implementation of the "Governance Framework" in line with its "Governance Manual". Further, we successfully met the Corporate Governance requirements of the Central Bank of Kuwait ("CBK"). This is driven by our continuous endeavor for adopting professional practices in management and control under the prime objective of delivering the best to our shareholders and stakeholders.

### Governance Framework




### Board of Directors

Boubyan Bank is managed by a Board of Directors (the 'Board'), which consists of nine Directors elected by the shareholders under a mandate to deliver sustainable value to all stakeholders, including depositors / customers, shareholders, employees, and society.

The Board is granted the highest authorities and overall responsibilities by the shareholders to manage the Bank. The Board operates in line with the by-laws of the Bank and its charter, where its scope of work includes but is not limited to:

- Setting the strategies and risk appetite for the Bank.
- Approving capital and operating plans presented by management for the achievement of the Bank's strategic objectives.
- Ensuring efficient application of the resources for the achievement of the objectives.
- Monitoring the performance of Executive Management.

## Governance Report

### Directors

**Mahmoud Yousef Al-Fulaij**
**Chairman (Non-Executive)**
Year of joining: 2010

**Skills and Experience:**
Mr. Al-Fulaij is a well-known businessman in Kuwait with more than 34 years of experience; he manages two general trading and contracting companies in Kuwait. He graduated with a bachelor's degree in Business Administration from the United States of America in 1980.
**Other current posts:**
- Board Director – Arcadia Real Estate Company, KSCC (Kuwait)

**Adel Abdul Wahab Al-Majed**
**Vice-Chairman & Chief Executive Officer (Executive)**
Year of joining: 2010

**Skills and Experience:**
Mr. Al-Majed joined Boubyan Bank in August 2009 with more than 34 years of banking experience. In the course of his career, he worked for National Bank of Kuwait (NBK) where he held several positions including Deputy Chief Executive Officer and General Manager - Consumer Banking Group. Mr. Al-Majed graduated from the University of Alexandria with a Bachelor's degree in Accounting and attended various executive management development programs at various universities, including Harvard, Wharton and Stanford.
**Other current posts:**
- Chairman – Bank London & Middle East (UK)

**Abdulaziz Abdullah Al-Shaya**
**Director (Non-Executive)**
Year of joining: 2009

**Skills and Experience:**
Mr. Al-Shaya is a well-known businessman with more than 37 years of experience in trading and real estate sectors; he manages a trading company in Kuwait. Mr. Al-Shaya holds a bachelor's degree in Economics from Kuwait University.

**Other current posts:**
- Vice Chairman – Awtad Real Estate Company, KSCC (Kuwait)
- Board Director – Mabanee Company, KPSC (Kuwait)
- Board Director – Orient Education Services Company, KSCC (Kuwait)
- Vice Chairman – Enmaa Real Estate Company (Oman)

**Ahmad Khalid Al-Homaizi**
**Director (Non-Executive)**
Year of joining: 2012

**Skills and Experience:**
Mr. Al-Homaizi has a well diversified experience in banking, investment and consultancy. He is the General Manager of a consultancy company in Kuwait. Mr. Al-Homaizi obtained his bachelor's degree in Finance and Management Information System from Northeastern University in the United States of America, and his MBA from London Business School.
**Other current posts:**
- Board Director – Combined Group Contracting Company, KSPC (Kuwait)
- Board Director – Boubyan Capital Investment Company, KSCC (Kuwait)

**Ahmed Yousef Al-Sager**
**Director (Non-Executive)**
Year of joining: 2011

**Skills and Experience:**
Mr. Al-Sager is an entrepreneur with more than 30 years of experience. He is currently the Managing Partner of a well-known food trading company in Kuwait. Mr. Al-Sager graduated from the United States of America with a bachelor's degree in Economics from Claremont McKenna College.
**Other current posts:**
- Vice-Chairman – Al-Yasra International Food Group, KSCC (Kuwait)
- Board Director – Al-Shall Investment Company, KSCC (Kuwait)
- Board Director – United Electronics Company – EXTRA (Saudi Arabia)
- Board Director – Göknur Foodstuff Company (Turkey)
- Board Director – BiscoMisr Company (Egypt)



**Farid Soud Al-Fozan**
**Director (Non-Executive)**
Year of joining: 2009

**Skills and Experience:**
Mr. Al-Fozan possesses more than 27 years of experience in various sectors such as contracting, real estate development, and industry and energy services. He manages operations of companies in Kuwait and Kingdom of Saudi Arabia. Mr. Al-Fozan graduated from Kuwait University with a bachelor's degree in Finance and Banking.
**Other current posts:**
- Vice Chairman – Gulf Group Holding Company, KSCC (Kuwait)
- Vice Chairman – Inovest Investment Company, BSC (Bahrain)
- Board Director – SAFCORP Holding Company, KSCC (Kuwait)
- Board Director – Gulf Real Estate Company (Saudi Arabia)

**Hazim Ali Al-Mutairi**
**Director (Non-Executive)**
Year of joining: 2010

**Skills and Experience:**
Mr. Al-Mutairi has a diversified experience for more than 23 years in the fields of financing, investment, and treasury. He is currently the CEO of CreditOne Kuwait Holding Company. He graduated from the United States of America with a bachelor's degree in Finance.
**Other current posts:**
- Board Director – Warba Insurance Company, KPSC (Kuwait)
- Board Director – Idafa Holding Company, KSCC (Kuwait)

**Nasser Abdulaziz Al-Jallal**
**Director (Non-Executive)**
Year of joining: 2013

**Skills and Experience:**
Mr. Al- Jallal is a well-known banker with more than 32 years of banking, investment, and business experience; he possessed several executive positions in banking, including the General Manager-Corporate Banking and Treasury at Ahli United Bank in Kuwait. He is currently the CEO of a general trading company in Kuwait. He graduated from the United States of America with a degree in Economics.
**Other current posts:**
- Board Director – Al-Mustaqbal Investment Company, KSCC (Kuwait)

**Waleed Mishari Al-Hamad**
**Director (Non-Executive)**
Year of joining: 2010

**Skills and Experience:**
Mr. Al-Hamad has more than 22 years of experience, including 11 years in banking and the remaining in the investment sector; he is the Managing Director of a holding company in Kuwait. Mr. Al-Hamad possesses a bachelor's degree in Economics, and a master's degree in Finance from the United States of America.
**Other current posts:**
- Chairman – Boubyan Capital Investment Company, KSCC (Kuwait)
- Managing Director – Helvetia Arab Holding Company, KSCC (Kuwait)

### Structure and Independence

The Board possesses a collective experience from various industries and business sectors brought by all the Board Directors who are elected rather than appointed by the shareholders. Within the Board, only the Vice-Chairman & CEO is entrusted with executive role; all other Board Directors are Non-Executive Directors, who are not acting as employees and do not participate in the day-to-day business management and activities of Boubyan.

Accordingly, the Non-Executive Directors bring an independent perspective, with constructive challenges to develop proposals on strategy, scrutinize the performance of management in meeting agreed goals and objectives, and monitor the risk profile and the reporting of performance, where the decisions of the Board are not dominated by certain individuals or groups.

# Governance Report

Further, Non-Executive Directors are independent in post and judgment as supported by the Board "Code of Conduct" and "Conflict of Interest" policies. The Board has ensured that any potential incidence of conflict of interest that may jeopardize the independence and objectivity of any Board Directors will be managed and cleared as per the adopted policies. Hence, the Bank confirms the independency of its Board Directors on their judgments and decisions.

## Approach to Governance

The Board understands that sound governance framework is one of the key pillars for ensuring achievement of goals and objectives of the Bank, along with maintaining the trust with the shareholders to maintain business growth, sustainability, and profitability.

Accordingly, the Board is committed to implement proper governance practices, which meet the relevant governance regulatory requirements and extend to reflect applicable leading practices. The Board ensures the implementation of the corporate governance practices through its supervisory role without stepping onto the day-to-day activities, which are delegated to the Executive Management.

## Authorities

The Board is responsible for managing the business of Boubyan Bank and, in doing so, may exercise its full authorities, subject to any relevant laws and regulations and to the Articles of Association and By-laws of the Bank. In particular, the Board may exercise the authority to obtain financing and to mortgage or charge all or any part of the undertaking, property or assets (present or future) of Boubyan Bank, and may also exercise any of the authorities delegated by the shareholders in a General Assembly.

On the other hand, the Board is able to assign to Directors, Executives and/or Committees any of its powers, authorities and discretions (including the power to sub-delegate); accordingly, the Board delegated the management and day-to-day activities of the Bank to the Executive Management but retained certain authorities among of which:

1. The approval of critical matters including business plans, risk appetite and performance targets, and procedures for monitoring and controlling operations.
2. The authority or the delegation of authority to approve credit and market risk limits, acquisitions, disposals, investments, capital expenditure or realization or creation of a new venture.
3. Appointment of the Executive Management team.
4. Any changes on the accounting policies, which would have material impact on the financial position.

## Reporting of Information

The Board regularly reviews the financial and management reports compared to financial budgets and business plans. Further, the Board Committees report to the Board on a quarterly basis on their activities.

The Board ensures the receipt of reliable, relevant, adequate, useful and timely information that enables them taking appropriate decisions; such information included:

- The agenda and supporting documents of Board and Committee meetings.
- Regular reports and presentations on strategy, budgets and developments in the businesses.
- Regular reports on the Group's risk appetite profile, top and emerging risks, risk management, credit exposures and the bank's finance portfolio, asset and liability management, liquidity, litigation, compliance, anti-money laundry and reputational issues.
- Reports on capital management and succession planning.

Further, all Board Directors have full access to all relevant information, and may take independent professional advice as needed; they can also contact management and employees at all levels.

## Board Assessment

As part of its Board assessment approach, Boubyan Bank followed up in 2015 on the actions for potential improvements at Board level as advised last year by an external consulting firm, and ensured successful implementation of the key recommendations. Once every three years, Boubyan Bank will engage an external consultant to conduct a Board assessment.

## Board Committees

To assist in fulfilling its duties, the Board established five Board Committees and delegated to them responsibilities to act on its behalf. The respective committees were established in line with proper corporate governance principles and the applicable corporate governance regulatory requirements.

Each Board Committee has clear role, duties, and authorities as determined by the Board and reflected within the respective charter. The chairperson of each Board Committee regularly reports to the Board on the performance of activities of the respective Board Committee.

Except for acting as the chairperson of the Board Governance Committee, the Chairman does not participate in any other Board Committee.

## Composition of Committees

| Board of Directors | Committee | Members |
|---|---|---|
| Board of Directors | Board Executive Committee (BEC) | Adel Abdul Wahab Al-Majed *<br>Abdulaziz Abdullah Al-Shaya<br>Hazim Ali Al-Mutairi<br>Nasser Abdulaziz Al-Jallal |
| | Board Nomination & Remuneration Committee (BNRC) | Nasser Abdulaziz Al-Jallal *<br>Abdulaziz Abdullah Al-Shaya<br>Ahmed Yousef Al-Sager |
| | Board Governance Committee (BGC) | Mahmoud Yousef Al-Fulaij *<br>Adel Abdul Wahab Al-Majed<br>Farid Soud Al-Fozan<br>Hazim Ali Al-Mutairi |
| | Board Audit Committee (BAC) | Farid Soud Al-Fozan *<br>Ahmad Khalid Al-Homaizi<br>Waleed Mishari Al-Hamad |
| | Board Risk and Compliance Committee (BRCC) | Ahmed Yousef Al-Sager *<br>Ahmad Khalid Al-Homaizi<br>Waleed Mishari Al-Hamad |

* Chairperson

# Governance Report

## Details of Committees

### Board Executive Committee (BEC)

The BEC comprises of four Board Directors, and is headed by the Vice-Chairman & CEO. The members of the BEC are not members in Board Audit Committee or Board Risk and Compliance Committee; and they possess collective experience in banking, business, real estate, credit financing, and Islamic Sharia'a.

As per the charter of the BEC, the Committee should meet at least six times a year. The main role of the BEC is to review and approve limits and transactions related to financing and investment activities as set within the authority matrices of Boubyan Bank. The BEC reviews as well as related policies such as finance policies.

**Activities during the year:**
During 2015, the BEC met thirty-nine times, which is almost on a weekly basis; the Committee performed various activities, which included but were not limited to:
- Approve financing transactions in line with the approved authority limits.
- Recommend settlement and/or legal cases of corporate customers to the Board for approval.
- Approve related party transactions and investment transactions within its authority limits.

### Board Nomination and Remuneration Committee (BNRC)

The BNRC comprises of three Board Directors; the members of the BNRC have collective experience in banking, business, and Islamic Sharia'a.

As per the charter of the BNRC, the Committee should meet at least four times a year. The main role of the BNRC includes assessing the nominees for the Board based on set criteria, administering the assessment of the Board, revising the Remuneration Policy and the assessment of Executive Management performance, and ensuring the presence of proper employee succession plan.

**Activities during the year:**
During 2015, the BNRC met five times; the activities of the BNRC included but were not limited to:
- Review the proposed remuneration schemes and propose recommendations to the Board.
- Ensure that performance assessment was conducted for Executive Management.
- Review the employee succession plan.
- Identify training programs to the Board.
- Approve a set of policies related mainly to the HRG.

### Board Governance Committee (BGC)

The BGC comprises of four Board Directors; the Chairman is the chairperson on the BGC, whose members have collective experience in banking, business, and governance.

The Committee should meet at least twice a year. The main role of the BGC includes developing and updating the Governance Manual, ensuring that the Governance Manual is adequately followed, reviewing annual governance report, and following-up on governance related recommendations/actions.

**Activities during the year:**
During 2015, the BGC met twice in line with the minimum requirements; the BGC covered the following activities:
- Approve the governance report.
- Discuss the governance review reports of the Corporate Governance Unit and follow up on the status of respective actions.
- Ensure that the Board and Board Committees held adequate number of meetings.
- Follow-up the actions taken based on the Board Assessment report.

### Board Audit Committee (BAC)

The BAC comprises of three Board Directors, whose members have collective experience in banking, business, governance, and audit. None of the BAC members is a member of Board Executive Committee. The BAC should meet at least on a quarterly basis; and its main role includes:
- Reviewing internal audit charter and manual, and accounting policies.
- Assessing and recommending appointment of external auditors.
- Reviewing quarterly financial statements.
- Approving internal audit plan, discussing internal audit report, and following up on audit corrective actions.
- Providing support to the Internal Audit Division to ensure fulfilling its scope of work effectively and independently.
- Approving the appointment and/or resignation of the GM – Internal Audit Division, and assessing his annual performance.

**Activities during the year:**
The BAC met six times during 2015, including a meeting every quarter in line with the corporate governance regulatory requirements, the activities of the BAC included but were not limited to:
- Approve internal audit plan.
- Discuss internal audit reports, management letters of external auditors, and ICR report.
- Review quarterly financial statements.
- Approve the accounting policies.
- Follow up on internal audit, management letter, ICR, and CBK observations and respective actions.

### Board Risk Management and Compliance Committee (BRCC)

The BRCC comprises of three Board Directors; and none of its members is a member of Board Executive Committee.

As per its charter, the BRCC meets at least four times a year, and reports on its activities to the Board on a periodic basis. The role of the BRCC includes:
- Assessing the Risk Appetite measures, Risk Strategy, and other risk related measures, and proposing recommendations to the Board.
- Reviewing and discussing the reports of the Risk Management Division, including the Capital Adequacy Ratio, Internal Capital Adequacy Assessment Process (ICAAP), Stress Testing, and other risk assessment reports.
- Providing support to the Risk Management Division to ensure fulfilling its scope of work effectively and independently.
- Approving the appointment and/or resignation of the GM – Risk Management Division, and assessing his annual performance.

**Activities during the year:**
During 2015, the BRCC met seven times; and its activities included but were not limited to the following:
- Propose the Capital Management Plan for Board approval.
- Approve various policies including credit risk policy and corporate finance policy.
- Discuss quarterly Risk Profile reports.
- Review periodic ICAAP & Stress Testing reports.
- Discuss Risk Asset Review reports.
- Discuss activity reports pertaining to Compliance and AML functions.

### Meetings of Board and Board Committees

| Attendance | Board | BEC | BNRC | BCGC | BAC | BRCC |
|---|---|---|---|---|---|---|
| Number of Meetings | 11 | 39 | 5 | 2 | 6 | 7 |
| Minimum Required Meetings | 6 | 6 | 4 | 2 | 4 | 4 |
| Mahmoud Yousef Al-Fulaij | 11 | | | 2 | | |
| Adel Abdul Wahab Al-Majed | 11 | 36 | | 2 | | |
| Abdulaziz Abdullah Al-Shaya | 9 | 34 | 5 | | | |
| Ahmad Khalid Al-Homaizi | 9 | | | | 3 | 7 |
| Ahmed Yousef Al-Sager | 9 | | 4 | | | 7 |
| Farid Soud Al-Fozan | 8 | | | 1 | 6 | |
| Hazim Ali Al-Mutairi | 7 | 37 | | 2 | | |
| Nasser Abdulaziz Al-Jallal | 8 | 25 | 5 | | | |
| Waleed Mishari Al-Hamad | 7 | | | | 6 | 6 |

### Executive Management

The Board of Directors delegated to the Executive Management, which is headed by the Vice-Chairman & Chief Executive Officer, the implementation of the adopted strategy and business plan.

### Management Team

### Boubyan Bank

**Adel Abdul Wahab Al-Majed**
**Vice-Chairman & Chief Executive Officer**

Mr. Al-Majed joined Boubyan Bank in August 2009, and has more than 34 years of banking experience. In the course of his career, he worked for National Bank of Kuwait (NBK) where he held several positions including Deputy Chief Executive Officer and General Manager - Consumer Banking Group. Mr. Al-Majed graduated from the University of Alexandria with a bachelor's degree in accounting, and attended various executive management development programs at various universities, including Harvard, Wharton and Stanford.

**Abdulla Al-Najran Al-Tuwaijri**
**Deputy Chief Executive Officer**

Mr. Al-Tuwaijri joined Boubyan Bank in December 2011 and has more than 27 years of banking experience, including 23 years at NBK. During his time with NBK, he held different leadership roles in retail banking in Kuwait and London, where his last position was the Deputy General Manager - Consumer Banking Group. Mr. Al-Tuwaijri got his bachelor's degree in Finance from Kuwait University, and attended several executive development programs at Harvard Business School, INSEAD, and other reputable institutions.

**Abdul-Salam Mohammed Al-Saleh**
**Deputy Chief Executive Officer**

Mr. Al-Saleh joined Boubyan Bank in October 2012, and has more than 28 years of banking experience. He worked for 18 years at NBK, where he gained experience in Financial Control and Corporate Banking; and his last position was the Head of Domestic Corporate Banking. Prior to joining the Bank, he worked over 7 years for National Bank of Abu Dhabi (NBAD) as the Regional Manager of its branch in Kuwait. Mr. Al-Saleh got his bachelor's degree in Finance from Kuwait University, and attended various executive management development programs over the course of his career.

**Waleed Khalid Al-Yaqout**
**General Manager - Administration Group**

Mr. Al-Yaqout joined Boubyan in February 2010, and has more than 34 years of banking experience. His previous position was General Manager – Administration and Human Resources Group at NBK. Mr. Al-Yaqout graduated with a bachelor's degree in Business Administration and Marketing from the University of Ashland in USA, and participated in various executive management development programs at Harvard, Wharton, Stanford and Columbia.

**Adel Abdullah Al Hammad**
**General Manager - Human Resources Group**

Mr. Al-Hammad joined Boubyan Bank in December 2006, and has more than 32 years of experience in Human Resources Management, out of which 23 years were at NBK, where he held several key positions, the last of which was the Head of Human Resources. Mr. Al-Hammad graduated with a bachelor's degree in Economics from Kuwait University, and attended several executive management development programs at Harvard and Stanford.

**Dr. Waleed Eisa Al-Hasawi**
**General Manager - Information Technology Group**

Dr. Al-Hasawi joined Boubyan Bank in February 2011, and has more than 38 years of experience. He held many positions in different institutions, the last of which was the Assistant General Manager for the IT Sector at Kuwait Finance House. Dr. Al-Hasawi studied at Worcester Polytechnic Institute in USA and continued his master's study at Lehigh University; and he got his PhD. from Loughborough University of Technology in UK. All his studies were in the area of Electronics and Computer Engineering.



**Ashraf Abdallah Sewilam**
**General Manager – Corporate Banking Group**

Mr. Sewilam joined Boubyan Bank in 2013, and has over 21 years of experience in banking sector. Before joining Boubyan, Mr. Sewilam was CEO of Al Rajhi Bank-Kuwait. He occupied the position of the CEO of UBCI (a subsidiary of Ahli United Bank (AUB) in Libya) and was a Deputy CEO for Corporate and Treasury at AUB in Kuwait. He worked as well for 10 years at NBK, where he progressed in several managerial positions, the last of which was Executive Manager. Mr. Sewilam holds bachelor's degree in Economics from Cairo University.

**Leslie James Rice**
**General Manager - Risk Management**

Mr. Rice joined Boubyan Bank in 2010, having over 31 years banking experience. He started his banking career with Grindlays Bank in London. Before joining Boubyan, Mr. Rice was the Group Chief Risk and Compliance Officer at SHUAA Capital in the UAE. His regional experience includes senior positions with National Bank of Dubai and Riyad Bank. He is an Economics graduate and a fellow of the Chartered Institute of Management Accountants.

**Abdul Rahman Hamza Mansour**
**General Manager - Internal Audit**

Mr. Hamza joined the Bank in year 2006 and has more than 30 years of professional experience with financial institutions. Prior to joining Boubyan, he held a position as Audit Manager at Kuwait Investment Authority, and worked before that at Al-Ahli Bank of Kuwait. Mr. Hamza holds a bachelor's degree in Accounting, and he is a Certified Public Accountant (CPA), a Certified Internal Auditor (CIA) and a Certified Fraud Examiner (CFE).

**Mohamed Ibrahim Ismail**
**General Manager – Financial Control Group**

Mr. Ismail joined Boubyan Bank in 2005 and has about 20 years of banking and financial services experience. He started his career as an external auditor with Deloitte & Touche and then Ernst & Young. In the course of his career, he worked at Kuwait Finance House and Gulf Investment House. Mr. Ismail is a Certified Public Accountant (CPA) and a Certified Internal Auditor (CIA), and holds MBA in Finance from Manchester Business School.

**Rajeev Kale**
**General Manager – Banking Operations Group**

Rajeev Kale has over 30 years of banking experience. He joined Boubyan in December 2015. Before joining Boubyan Bank, Mr. Kale worked as the Head of Operations at National Bank of Abu Dhabi. He held senior positions with top banks in the Middle East, UK, and South East Asia, including Citi-Bank, Deutsche Bank, and American Express. Mr. Kale holds MBA in Finance and MIS, and Bachler's degree in Engineering – Electronics and Telecommunication.

**Mukkulam Jamal Jaffar**
**Deputy General Manager - Treasury Services**

Mr. Jaffar joined the Bank in March 2005 and has over 37 years of experience in banking sector, mainly in treasury services. Prior to joining Boubyan, he held the position as the Assistant Treasurer at Burgan Bank. Mr. Jaffar holds a master's degree in Physics and a diploma in Bank Management.

### Boubyan Group

**Saleh Ahmad Al-Ateeqi**
**Chief Executive Officer – Boubyan Capital**

Mr. Al-Ateeqi joined Boubyan Group in 2010, and he is the CEO of Boubyan Capital – the investment management arm of Boubyan Bank. Prior to Boubyan, he held various positions in the fields of investment, real estate and management consultancy. Mr. Al-Ateeqi was a Deputy GM in charge of corporate strategy and business development at Mabanee Company, and an Engagement Manager with McKinsey & Company. He also worked as a Senior Advisor with Tony Blair & Associates. Mr. Al-Ateeqi holds an MBA in Strategic Management and Finance from Wharton School of Business and a Bachelor's degree with honors in Accounting from Georgetown University.

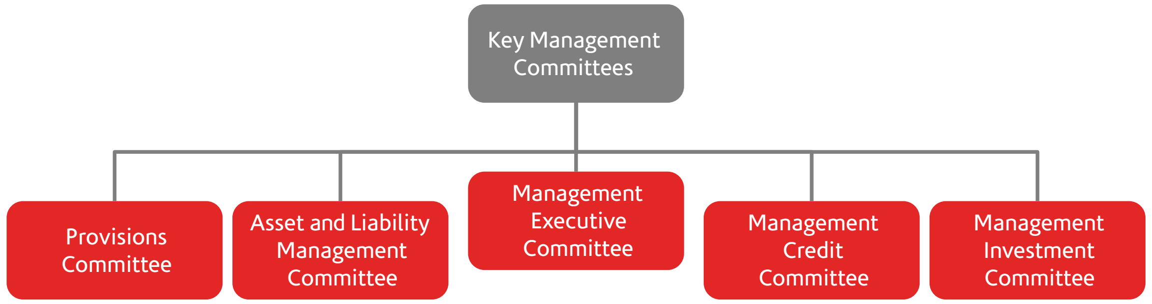
# Governance Report

## Management Committees

The Executive Management works in a teamwork spirit, where collective efforts and decisions would be required for ensuring effective and efficient management of integrated functions and activities. Accordingly, Boubyan Bank has a set of Management Committees to assist in fulfilling the duties and responsibilities of the Executive Management. The Management Committees derive their authorities mainly from the Vice-Chairman & CEO, and based on authorities and limits delegated by the Board of Directors.

## Key Management Committees

The Key Management Committees are as follows:




**Management Executive Committee (MEC)**

This committee deals with all significant management level matters other than those handled by other management committees. The MEC meets almost on a weekly basis.

**Assets and Liability Management Committee (ALCO)**

The ALCO reviews the assets and liability composition of the bank, liquidity, market risks, trends and their impact on the Bank. The ALCO meets on a monthly basis.

**Management Credit Committee (MCC)**

The main objective of MCC is to discuss and make decisions within its authorized limits on financing proposals submitted by the business groups. The MCC usually meets on a weekly basis.

**Management Investment Committee (MIC)**

The MIC discusses and makes decisions within its authorized limits on investment proposals submitted by the concerned business groups. The MCC usually meets on a weekly basis.

**Provisions Committee (PVC)**

The Provisions Committee reviews and evaluates the outstanding investments and financing transactions for each customer, to determine any issues or difficulties relating to the customer position that require to classify such investments and financing transactions as irregular and hence determining the required provisions in accordance with CBK instructions and International Financial Reporting Standards. The PVC meets at least once every quarter.



## Internal Control

The Board is responsible for ensuring the adequacy of the Group's internal control framework. This includes, but is not restricted to, the approval and oversight of the implementation of the strategy via policies that reflect the prudent Sharia'a compliant approach to conducting its businesses. The internal control processes include controls and limits that are embedded in all processes; risk and control reports are integral parts of the Group's daily activities. Such procedures were designed to manage and mitigate risk of failure to achieve business objectives and can only provide reasonable and rather than absolute assurance against material misstatements, errors, losses, or fraud.

In line with its duties and responsibilities toward ensuring adequate internal control systems, the Board provided all needed support and ensured fulfillment of the roles of the various functions involved in the internal control, including:

- Sharia'a Board.
- External Audit.
- Independent Internal Control Review.
- Internal Audit.
- Risk Management.
- Compliance.
- Governance.

## Internal Control Review

In year 2015, Boubyan Bank engaged an external auditor in line with the CBK regulation to conduct an independent internal control review for year 2014 activities. Based on the review of the external auditor, no exceptions pertaining to governance aspects were noted. Also, the report of the external auditor conveyed that Boubyan Bank maintained in all material aspects, effective internal control system, where no high risk issues were even noted; the Internal Control Review report is attached in the next page.

## Internal Control Review Report

BDO

Tel: +965 2242 6999
Fax: +965 2240 1666
www.bdo.com.kw

Al Johara Tower, 6th Floor
Khaled Ben Al Waleed Street, Sharq
P.O. Box 25578, Safat 13116
Kuwait

**Opinion letter**

The Board of Directors
Boubyan Bank
P.O.Box 25507, Safat,13116
State of Kuwait.

29 June 2015

Dear Sirs,

**Report on Accounting and Other Records and Internal Control Systems**

In accordance with our letter of engagement dated 19 April, 2015, we have examined the accounting and other records and internal control systems of Boubyan Bank K.S.C.P ("the Bank") and the following subsidiaries of the bank (hereafter collectively referred to as "the group") for the year ended 31 December 2014:

- Boubyan Capital Investment Company KSC(Closed)
- Boubyan Takaful Insurance Company KSC (Closed)

We covered the following areas of the Bank:

- Corporate Governance Unit;
- Corporate Banking Group;
- Treasury Division;
- Consumer Banking Group;
- Financial Control Group;
- Banking Operations Group;
- Information Technology Group;
- Risk Management Division;
- Compliance Division;
- Anti Money Laundry Unit;
- Human Resources Group;
- Legal Affairs Division;
- Sharia'a Authority Division;
- Internal Audit Division;
- Corporate Communication Division;
- Administration Group;
- Complaints unit; and
- Financial Securities.

Our examination has been carried out as per the requirements of the Central Bank of Kuwait (CBK) letter dated 22 February, 2015 considering the requirements contained in the Manual of General Directives issued by the CBK on 14 November 1996, instructions relating to corporate governance issued by the CBK on 20 June 2012, instructions dated 23 July 2013 concerning anti money laundering and combating financing of terrorism, instructions dated 9 February 2012 regarding confidentiality of customer's information and financial securities activities of the Group.

As members of the Board of Directors of the Bank, you are responsible for establishing and maintaining adequate accounting and other records and internal control systems, taking into consideration the expected benefits and relative costs of establishing such systems. The objective of this report is to provide reasonable, but not absolute, assurance on the extent to which the adopted procedures and systems are adequate to safeguard the assets against loss from unauthorized use or disposition; that key risks are properly monitored and evaluated; that transactions are executed in accordance with established authorization procedures and are recorded properly; and to enable you to conduct the business in a prudent manner.





BDO

Because of inherent limitations in any internal control system, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the systems to future periods is subject to the risk that management information and control procedures may become inadequate because of changes in conditions or that the degree of compliance with those procedures may deteriorate.

Having regard to the nature and volumes of the Group's operations, during the year ended 31 December 2014, and the materiality and risk rating of our findings, in our opinion:

a) the accounting and other records and internal control systems of the Group were established and maintained in accordance with the requirements of the Manual of General Directives issued by the CBK on 14 November 1996 and letter issued by CBK on 22 February 2015,

b) the findings raised in the examination and assessment of the internal controls do not have an impact on the fair presentation of the financial statements of the Group for the year ended 31 December 2014, and,

c) the actions taken by the Group to address the findings referred in the report, including previous years' findings, are satisfactory.

Yours faithfully,

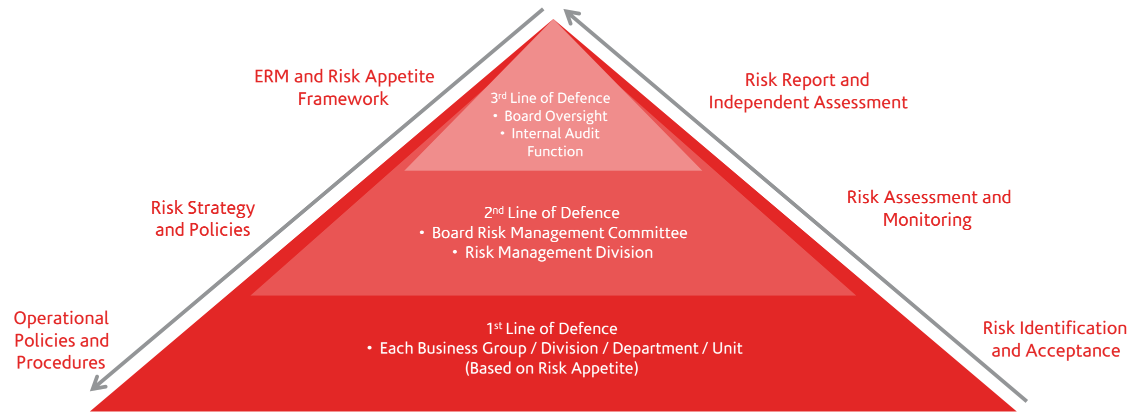
**Qais M. Al Nisf**
**License No. 38 "A"**
**BDO Al Nisf & Partners**

## Risk Management

### Risk Management Framework

Risk management is a core focus at Boubyan Bank. This is driven by the responsibility of the Board of Directors to ensure having a "fit for the purpose" Risk Management function to protect the best interests of all stakeholders, especially the depositors / customers. Boubyan Bank has a Board Risk Management and Compliance Committee (BRCC), which oversees the Risk Management function.

Boubyan Bank perceives Risk Management as an integrated function with the business activities, which is guided by a well-balanced Risk Appetite model; accordingly, we adopt the philosophy of "risk is everyone's business", and this is reflected in the following "Three-Lines of Defence" approach:




In line with the "Three Lines of Defence" approach, Boubyan Bank introduced its Enterprise Risk Management (ERM) framework through updating the Risk appetite measures and linking them to the ERM index.

### Stress Testing

In line with best practices for risk management, Boubyan Bank conducts stress testing to measure the Bank's vulnerability to exceptional but plausible events. The respective stress testing is conducted on a quarterly basis, where the results are discussed at management level and presented to the Board Risk Management and Compliance Committee. Further, the results of Stress Testing are reported on a semi-annual basis to the Board and Central Bank of Kuwait.

### Risk Management Division

The Risk Management Division (RMD) operates independently from the business, and is headed by a General Manager, who reports to the Board Risk Management and Compliance Committee and the CEO. The RMD comprises of the following functional departments:

- Financial and Market Risk Department
- Operational Risk Department
- Technology Risk Department
- Credit Risk Review Department
- Corporate Financing Risk Analytics Department
- Consumer Financing Risk Analytics Department

### Remuneration Policy and Remuneration Package

### Remuneration Scheme

Boubyan Bank always considers adopting a balanced "Remuneration Scheme" to be competitive enough to attract and maintain qualified and skilled employees, who are key success factors in banking sector, and, at the same time, to be reasonably linked to sustainable progressive performance, and achievement of both short and long-term targets.



The current "Employee Incentive Plan" of Boubyan Bank takes into consideration:

- Both financial and risk measures
- Link to long term targets (Strategic Objectives)
- Sensitivity to time horizons of risks
- Claw back feature

### Board Remuneration

As per the by-laws and Article of Associations and in line with the Companies' Laws of the State of Kuwait, the Board of Directors may propose annual remuneration up to 10% of annual Net Profit after deducting the following appropriations:

- 10% of Net Profit as Statutory Reserves
- 10% of Net Profit as Voluntary Reserves
- 1% of Net Profit as Contribution to KFAS
- 5% of capital as preliminary dividends to the Shareholders

In any case, Remuneration to the Board should be subject to the approval of the Shareholders in the Annual General Assembly.

As current practice, the Board Directors are not entitled to attendance fees for the Board and/or Board Committees meetings, and/or any material in-kind benefits. Further, none of the Board Directors is entitled to any fixed salaries, except for the Vice-Chairman & CEO, who earns benefits as employee for his executive role.

For year 2015, the Board has proposed annual remuneration of KD 310 thousands to be allocated among the Board Directors as follows: KD 50 thousands to the Chairman, KD 40 thousands for each member of the Board Executive Committee, and KD 25 thousands for each other Board Directors. This proposal is subject to the approval of the shareholders.

### Employee Remuneration

The employees of the Bank are entitled to two categories of remuneration, which are as follows:

- Fixed remuneration: such remuneration are defined in the employment agreements, and may include fixed salaries (i.e. basic salary , allowances and annual fixed pay as a percentage of basic salary) and other benefits (i.e. medical insurance, air-tickets, and schooling support),.

- Variable remuneration: such remuneration are driven mainly by performance and guided by the "Employee Incentive Plan". This could be in the form of cash bonus and/or Employee Stock Options (ESOP). The variable remuneration are reviewed by the Board Nomination and Remuneration Committee and approved by the Board of Directors.

The following table details the remuneration paid to certain employee categories for year ended 31 December 2015:

| Employees Categories | Number of Employees | Fixed Remuneration KD'000 | Variable Remuneration KD'000 | | Total KD'000 |
|---|---|---|---|---|---|
| | | | Cash | ESOP | |
| Senior Management | 33 | 3,630 | 729 | 730 | 5,089 |
| Material Risk Takers | 23 | 2,296 | 508 | 505 | 3,309 |
| Financial and Risk Control | 13 | 855 | 106 | 101 | 1,062 |

**Categories Definitions:**

- Senior Management includes all staff in the positions of Assistant General Manager and above and staff whose hiring are subject to approval of regulators.
- Material Risk Takers includes all staff whose activities and decisions have a material impact on the risk profile of the bank.
- Financial and Risk Control includes all head of divisions and head of groups in Financial Control, Risk Management, Compliance, Internal Audit and Anti-Money Laundering functions.

The five senior executives who received the highest remuneration packages, plus the heads of Financial Control, Internal Audit and Risk Management groups (i.e., 8 executives in total) received together as a group remuneration package of KD 2,518 thousand for the year ended 31 December 2015.

**Major Shareholders**

As of December 31, 2015, the major shareholders owning or controlling more than 5% of capital were as follows:

| Name of Shareholder | Percentage of Ownership |
|---|---|
| National Bank of Kuwait S.A.K | 58.3% |
| The Commercial Bank of Kuwait S.A.K | 11.94% |

**Our Society…Our Responsibility**

Social responsibility is the cornerstone of the Bank's dealings with all groups of the society in contribution to development, and to building a society which is able to keep pace with all regional and international changes. Therefore, the Bank took the lead in launching a variety of social initiatives and sponsoring many activities and events targeting various groups of the society.

During the period extending from 2010 through the end of 2015, the Bank sponsored and participated in over 550 different activities targeting different social groups with a special focus on youth and people with special needs.

**Boubyan Bank's Most Prominent Social Campaigns in 2015:**

**Steps Campaign**

For the second year in a row, Boubyan Bank organized the Steps Campaign during the Holy month of Ramadan in cooperation with Project 5 Miles, aiming to support people with special needs in Kuwait by encouraging everyone to exercise walking at Al-Hamra tower in Kuwait. The Bank donated KD 1 for every 5 laps completed by the participants.

This campaign was the most distinguished among its peers since it combined both walking during the holy month of Ramadan, with its positive impact on the health of those who exercise it, and the humanitarian goal of the campaign represented in supporting people with special needs.

The campaign succeeded to attract 4000+ participants from various ages over the whole month, managing by that to alleviate the pains of those with special needs via the Bank's donations.

**The Big Tree Society**

For the 4th year in a row, Boubyan Bank organized the Big Tree Society Competition in collaboration with the United Nations Educational, Scientific and Cultural Organization (UNESCO) under the patronage of the Minister of Education and Minister of Higher Education, His Excellency Dr. Bader Hamad Al-Essa. More than 300 schools participated in the competition and 208 of them reached the final stages.

The Big Tree Society is not just a competition between schools, rather, it is an integral program that aims at implanting many values pertinent to environmental protection in children's minds.

The competition urges students, of different ages and at all school levels, to shape their future. The program gives the students an opportunity to realize their potentials and to take part in a competition whose goal is to improve environmental awareness and be influential as regards environmental matters.

**Encouraging Kuwaiti Youth Projects**

Boubyan Bank continued its support to the Kuwaiti youths via encouraging their private projects at various domains. This was embodied in cooperating with them and purchasing their products in the bank's special events. This has also contributed to increasing their marketing levels in addition to employing the bank's social media channels to promote their projects.

**Architectural Design Exhibition**

For the fifth year in a row, Boubyan Bank continued its support to the graduation projects of the students of the College of Engineering & Petroleum - Kuwait University. The Bank was named the "Most Prominent Supporter of the 2015 Graduation Projects" due to its support and contribution to the sponsorship of 50+ engineering projects where 200+ students participated.

**Various Activities and Events**

In 2015, the bank continued its encouragement and financial support for many initiatives, campaigns and exhibitions which are considered a matter of interest for various groups of the society, the most important of which was Kuwait Grand Photography Contest, the Islamic Art Category, and the distinguished project of "Thameen of Kuwait" Encyclopedia.

Boubyan Bank K.S.C.P. and Subsidiaries

بنك بوبيان
Boubyan Bank

# Risk Managment

For the year ended 31 December 2015

## 1. INRODUCTION AND OVERVIEW

In June 2014, Central Bank of Kuwait (CBK) issued directives on the adoption of the Capital Adequacy Standards (Basel III) under the Basel Committee framework applicable to licensed Islamic banks in Kuwait, effectively replacing and superseding the earlier requirements under the circular issued in 2009 Basel framework (Basel II). The reforms strengthen the quality of capital and introduced several buffer requirements in line with proposals made by the Basel Committee on Banking Supervision (BCBS). The CBK Basel framework consists of three Pillars. Pillar 1 provides a framework for measuring capital requirements for credit, operational and market risks under the "Standardised Approach". Pillar 2 pertains to the Supervisory Review Process and emphasises the importance of Internal Capital Adequacy Assessment Process (ICAAP) performed by banks. As such, and in compliance with the aforementioned instructions, Boubyan Bank K.S.C.P (the "Bank") has developed an ICAAP and Stress Testing framework along with its underlying models, policies and procedures. Boubyan Bank continually enhances its ICAAP and Stress Testing framework to maintain its capital commensurate with the overall risks to which the Bank is exposed. Pillar 3 aims to complement the above capital adequacy requirements under Pillar 1 and Pillar 2 by requiring banks to provide a consistent and understandable disclosure framework which facilitates comparison, thus enhancing the safety and soundness of the banking sector in Kuwait.

## 2. REGULATORY SCOPE OF CONSOLIDATION

The core activities of the Bank and its subsidiaries (collectively the "Group") are retail, corporate and, investment banking, and asset management, in accordance with Codes of the Islamic Sharia'a, as approved by the Bank's Sharia'a Supervisory Board. For further details on the Group's activities, please refer to note 29 of the Group's consolidated financial statements.

The consolidated financial statements and capital adequacy regulatory reports of the Group have been prepared and consolidated on a consistent basis, unless otherwise disclosed. For additional information on the basis of preparation and basis of consolidation please refer to notes 2 and 3.1 of the Group's consolidated financial statements for the year ended 31 December 2015.

The principal subsidiaries of the Group are presented in the note 15 of the Group's consolidated financial statements.

All subsidiaries have been fully consolidated under the regulatory scope of consolidation for regulatory capital calculations.

Significant investments in banking, financial and insurance entities that are outside the scope of regulatory consolidation are required to be subject to the threshold treatment prescribed under the CBK Basel III rules and are risk-weighted and/or capital deducted.

- All the significant investments in banking and financial entities classified as associates under Note 16 of the Group's consolidated financial statements have been subject to the threshold treatment and risk-weighted as prescribed.
- Other significant investments in banking and financial entities classified as equities have been subject to the threshold treatment and risk-weighted as prescribed.

Other 'minority' investments in banking, financial and insurance entities classified as equities have been subject to the prescribed threshold treatment and risk-weighted as required.





## 3. CAPITAL STRUCTURE

The Group's regulatory capital comprises:

a) Common Equity Tier 1 (CET1) Capital which is considered as the core measure of the Group's financial strength and includes share capital, share premium, eligible reserves and retained earnings net of regulatory adjustments,

b) Additional Tier 1 (AT1) Capital which consists of eligible portion of non-controlling interests, and,

c) Tier 2 (T2) capital which consists of the allowed portions of general provisions and eligible portion of non-controlling interests.

The Bank's share capital as at 31 December 2015 comprised **2,063,251,570** issued and fully-paid up equity shares.

The regulatory capital for the Group is detailed below:

| Table 1 | **2015** KD'000 | 2014 KD'000 |
|---|---|---|
| **Regulatory Capital** | | |
| Common Equity Tier 1 Capital | **259,364** | 229,050 |
| Additional Tier 1 Capital | **230** | 731 |
| **Tier 1 Capital** | **259,594** | 229,781 |
| Tier 2 Capital | **18,332** | 15,148 |
| **Total Regulatory Capital** | **277,926** | 244,929 |

## 4. CAPITAL ADEQUACY RATIOS

The Group ensures adherence to CBK's requirements by monitoring its capital adequacy. The Group's capital forecasting process ensures pro-active actions and plans are in place to ensure a sufficient capital buffer above minimum levels is in place at all times. This process takes into consideration regulatory capital requirements, stress-testing and the Bank's business plans.
The Minimum Capital Requirements (MCR) and The Capital Adequacy Ratios'(CAR) for the Group under the various levels of regulatory capital expressed as a percentage of risk-weighted assets are detailed below:

| | **2015** | | 2014 | |
|---|---|---|---|---|
| **Table 2** | **MCR*** | **CAR** | MCR* | CAR |
| Common Equity Tier 1 Capital (CET1) | **9.00%** | **15.90%** | 8.50% | 16.88% |
| Tier 1 Capital (Tier 1) | **10.50%** | **15.91%** | 10.00% | 16.94% |
| Total Regulatory Capital | **12.50%** | **17.04%** | 12.00% | 18.05% |

* includes a 2.5% capital conservation buffer which is to be met through CET1 capital.

The countercyclical capital Buffer has not been required for the year ended 31 December 2015 in the MCR. The MCR including capital conservation buffer is to be increased to 13% through a transitional phased-in period until 2016.

## 5. PROFILE OF RISK-WEIGHTED ASSETS AND CAPITAL CHARGE

The Group's risk-weighted capital requirements for credit, market and operational risks are shown below.

### 5.1 Credit risk

The capital charge in respect of credit risk as at was **KD 179,917 thousand**, (31 December 2014: KD 141,474 thousand) as detailed below:

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| | **Gross credit exposure** | **Risk weighted assets** | **Capital charge** | Gross credit exposure | Risk weighted assets | Capital charge |
| **Table 3** | **KD'000** | **KD'000** | **KD'000** | KD'000 | KD'000 | KD'000 |
| Cash | **25,598** | **-** | **-** | 24,555 | - | - |
| Claims on sovereigns | **165,776** | **353** | **44** | 171,279 | - | - |
| Claims on international organisations | **39,513** | **-** | **-** | 38,099 | - | - |
| Claims on public sector Entities | **6,129** | **-** | **-** | 6,613 | - | - |
| Claims on MDBs | **6,064** | **-** | **-** | - | - | - |
| Claims on banks | **533,412** | **76,299** | **9,537** | 405,199 | 60,107 | 7,213 |
| Claims on corporates | **931,421** | **405,255** | **50,657** | 794,502 | 345,675 | 41,481 |
| Regulatory retail exposure | **974,557** | **625,340** | **78,169** | 771,959 | 484,972 | 58,197 |
| Past due exposure | **10,666** | **6,219** | **777** | 15,691 | 7,523 | 903 |
| Investments in real estate | **23,397** | **46,794** | **5,849** | 25,637 | 51,275 | 6,153 |
| Investments and financing to customers | **386,268** | **152,554** | **19,069** | 337,252 | 99,735 | 11,968 |
| Sukuk exposures | **19,045** | **10,987** | **1,373** | 27,037 | 18,324 | 2,199 |
| Other exposures* | **108,998** | **115,537** | **14,442** | 103,638 | 111,337 | 13,360 |
| | **3,230,844** | **1,439,338** | **179,917** | 2,721,461 | 1,178,948 | 141,474 |

*"Other exposures" above includes Threshold Deduction of **KD 28,052 thousand** (31 December 2014: KD 25,823 thousand) and an amount of **KD 23,729 thousand** (31 December 2014: KD 21,204 thousand) negative representing the amount of general provision in excess of a maximum of 1.25% of Credit Risk-Weighted Assets, which is allowed in arriving at Tier 2 Capital.

### 5.2 Market risk:

The total capital charge in respect of market risk was **KD 5,522** thousand arising only from foreign exchange risk, (31 December 2014: KD 5,803 thousand).

### 5.3 Operational Risk:

The capital charge in respect of operational risk was **KD 18,489 thousand**, (31 December 2014: KD 15,515 thousand). This capital charge was computed using the Basic Indicator Approach by multiplying the three-year average gross income by a pre-defined beta factor.





## 6. RISK MANAGEMENT

The Bank's business operations require identification, measurement, aggregation and effective management of risks and efficient allocation of capital to derive an optimal risk/return ratio. The Bank manages its risks in a structured, systematic and transparent manner through a risk policy which embeds comprehensive risk management into the organisational structure, risk measurement and monitoring processes. The Bank's Risk Management function is independent of business units; it reports directly to the Risk and Compliance Committee of the Board and takes a holistic and objective approach to assist the Board and Executive Management in managing the Bank's risks.

During 2009 the Bank augmented its overall framework for governance and capital planning and management by undertaking an Internal Capital Adequacy Assessment Process (ICAAP), which includes "scenario testing" at periodic, regular intervals. Amongst the key objectives of the ICAAP is to quantify potential risks that the Bank faces and are not covered under Pillar I.

In line with the guidelines from the Basel Committee and Central Bank of Kuwait, key principles of the Bank's ICAAP include:

- Responsibilities of the Board and Senior Management.
- Sound Capital Management.
- Comprehensive assessment of Pillar II risks, e.g., Credit (sector and name concentration), Liquidity, Legal, Reputational and Strategic Risks, etc.
- Monitoring and reporting.
- Control and review of the process.

The key features of the Bank's comprehensive risk management policy are:

- The Board of Directors provides overall risk management direction and oversight.
- The Bank's Risk Appetite is proposed by the Management Executive Committee and approved by the Board of Directors.
- Risk management is embedded in the Bank as an intrinsic process and is a core competency of all its employees.
- The Bank manages its credit, market, operational and liquidity risks in a co-ordinated manner within the organisation.
- The Bank's Internal Audit function reports to the Board Audit Committee and provides independent validation of the business units' compliance with risk policies and procedures and the adequacy and effectiveness of the Risk Management Framework on a bank-wide basis.

The risk management function assists Executive Management in controlling and actively managing the Bank's overall risks. The function also ensures that:

- The Bank's overall business strategy is consistent with its Risk Appetite approved by the Board of Directors.
- Risk policies, procedures and methodologies are consistent with the Bank's Risk Appetite.
- Appropriate risk management architecture and systems are developed and implemented.
- Risks and limits of the portfolio are monitored throughout the Bank.

The Bank regularly assesses the adequacy and effectiveness of its Risk Management Framework in the light of the changing risk environment.

### 6.1 Scope and nature of risk reporting tools

The comprehensive Risk Management Framework enables the Bank to identify, assess, limit and monitor risks using a comprehensive range of quantitative and qualitative tools. Some of these tools are common to a number of risk categories, while others are tailored to the particular features of specific risk categories and enable generation of information such as:

- Credit risk in corporates and consumer financing and other asset exposures, such as collateral coverage ratio, limit utilisation, past-due alerts, etc.
- Quantification of the susceptibility of the market value of single positions or portfolios to changes in market parameters (commonly referred to as sensitivity analysis).
- Quantification of exposure to losses due to extreme movements in market prices or rates.

The Bank regularly assesses the adequacy and effectiveness of its reporting tools and metrics in light of the changing risk environment.

**6. RISK MANAGEMENT (CONTINUED)**

**6.2 Risk management processes**

Through the comprehensive Risk Management Framework, 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.

The key risks assumed by the Bank in its daily operations are outlined below:

**6.2.1 Credit risk**

Credit risk is defined as the likelihood that a customer or counterparty is unable to meet the contracted financial obligations resulting in a default situation and/or financial loss. These risks arise in the Group's normal course of business.

**6.2.2 Credit risk management strategy**

The approach to credit risk is based on the foundation to preserve the independence and integrity of the credit risk assessment, management and reporting processes, combined with clear policies, limits and approval structures which guide the day-to-day initiation and management of the Bank's credit risk exposure. This approach comprises credit limits which are established for all customers after a careful assessment of their credit worthiness.

Standing procedures, outlined in the Bank's Credit Policies and Manuals, require that all credit proposals be subjected to detailed screening pending submission to the appropriate credit committee. Whenever necessary, credit facilities are secured by acceptable forms of collateral to mitigate the related credit risks. The Board of Directors defines the Bank's credit risk management strategy and approves credit risk policies to ensure alignment of the Bank's exposure with its Risk Appetite.

**6.2.3 Credit risk management structure and governance**

Senior management implements the Board of Directors' credit risk strategy and develops policies and procedures for identifying, assessing, monitoring and controlling credit risk.

The Bank's Credit Committee, chaired by the Bank's CEO and comprising senior executives from the business divisions, meets regularly and reviews the Bank's financing portfolios and advises the Board appropriately.

In compliance with CBK regulations, financing to individual Board Members and related parties is fully secured and monitored by the Board Executive Committee. Such transactions are made on substantially the same terms, including profit rates and collateral, as those prevailing at the time for comparable transactions with unrelated parties. All such facilities are approved by the Board of Directors in line with the relative authorities from the Shareholders' General Assembly.

Country limits are determined based on the outlook of economic and political factors, along with the review of reports by rating agencies on the country (where available) and application of local business and market knowledge. Country limit exposures are subject to periodic approval by the Board of Directors or the Board Executive Committee.

**6.2.4 Key features of corporate credit risk management**

- Credit facilities are granted based on detailed credit risk assessments which consider the purpose of the facility and source of repayment, prevailing and potential macro-economic factors, industry trends and the customer's positioning within its industry peer.
- Internal credit-rating models are regularly reviewed by the Bank risk management function in co-ordination with line management and the Management Credit Committee and continually enhanced in line with industry credit risk management "best practices".
- All new proposals and / or material changes to existing credit facilities are reviewed and approved by either the Board Executive Committee or the Management Credit Committee.
- The credit facility administration process is undertaken by a segregated function to ensure proper execution of all credit approvals and maintenance of documentation, and proactive control over maturities, expiry of limits, collateral valuation and contractual covenants.





**6. RISK MANAGEMENT (CONTINUED)**

**6.2 Risk management processes (continued)**

**6.2.5 Key features of consumer credit risk management**

- Oversight of consumer finance risk is undertaken by an independent unit directly within Bank Risk Management. Within this framework, limits and approval authorities are exercised by Consumer Banking officers with defined approval authorities.
- Consumer credit risk management functional areas are aligned with key concepts of risk management, namely, governance, control, measurement and reporting.
- Consumer credit risk is managed with three lines of defence. As the first line of defence, Consumer Banking (i.e., underwriting) is responsible for adherence to CBK regulations and guidelines, the credit policies, controls and processes. As second line of defence, the consumer credit risk management team, working independently of the business unit, assesses and ensures implementation of credit risk management discipline & policies. The third line of defence, the Internal Audit function, independently tests, verifies and evaluates controls for effective credit risk management and implementation of policies & procedures.
- All significant financing policies and amendments to policies are reviewed annually by the Management Executive Committee and approved by the Board.
- The Consumer Financing risk assessment for applicants uses risk "scorecard" customer-centric methodologies which incorporate CBK regulatory guidelines and Bank policies related to consumer financing facilities, such as debt-to-income ratio, minimum qualifying income and limits on advances by product type. Additional inputs utilised include applicant characteristics obtained from financing bureaus, particularly Kuwait Credit Bureau statistics, to assist in assessing an applicant's ability to repay and the probability of default. This model is reviewed and refined continually.

**6.2.6 Bank's credit risk monitoring**

The Bank's exposures are continuously monitored through a system of triggers and early-warning signals aimed at detecting adverse symptoms which could result in deterioration of credit risk quality. The triggers and early-warning systems are supplemented by facility utilisation and collateral valuation monitoring together with a review of upcoming credit facility expiration and market intelligence to enable timely corrective action by management. The results of the monitoring process are reflected in the internal rating process.

Credit risk is monitored on an ongoing basis with formal monthly and quarterly reporting to ensure senior management awareness of shifts in credit quality and portfolio performance along with changing external factors such as economic and business cycles.

Consumer credit risk reporting also includes a "dashboard" for consumer financing, classification and delinquency monitoring.

A specialised and focused team on recovery and collections handles the management and collection of problem financing facilities.

**6.2.7 Bank's credit risk mitigation strategy**

Portfolio diversification is the cornerstone of the Bank's credit risk mitigation strategy which is implemented through customer, industry and geographical limit structures.

To ensure diversification at the portfolio level, interrelated companies with the same management or ownership structure are classified and treated as one entity. The Risk Appetite requires that the Bank limits its financing concentration per entity to specific percentage of the Bank's regulatory capital.

Credit risk mitigants such as collateral and guarantees are effective mitigating factors within the Bank's portfolio and collateral quality is continuously monitored and assessed. Risk transfer in the form of syndications and risk participation arrangements with other banks are used to manage the Bank's exposures.

**6. RISK MANAGEMENT (CONTINUED)**

**6.2 Risk management processes (Continued)**

**6.2.8 Management of credit collateral and valuation**

The main types of collateral accepted by the Bank include:

1. Cash collateral
2. Equity shares
3. Bank guarantees
4. Real estates
5. Sovereign debt instruments
6. Bank debt instruments
7. Collective investment schemes

In accordance with the Bank's credit policies, banks and creditworthy companies and individuals with high net worth are accepted as guarantor counterparties, subject to credit risk assessment. Furthermore, in accordance with the CBK Basel framework, cash collateral, quoted shares, real estates, debt instruments of sovereigns and banks and collective investment schemes are recognised as risk mitigation for capital adequacy purposes.

The custody and daily "mark to market" (revaluation) of financial collateral, inclusive of shares, are performed independent of the business units. Real estate collateral is valued on an annual basis.

The Group’s credit exposures were covered by the following eligible financial collateral:

| | **2015** | | 2014 | |
|---|---|---|---|---|
| **Table 4** | **Gross credit exposure KD’000** | **Eligible Credit Risk Mitigation KD’000** | Gross credit exposure KD’000 | Eligible Credit Risk Mitigation KD’000 |
| Cash | **25,598** | **-** | 24,555 | - |
| Claims on sovereigns | **165,776** | **-** | 171,279 | - |
| Claims on international organisations | **39,513** | **-** | 38,099 | - |
| Claims on public sector Entities | **6,129** | **-** | 6,613 | - |
| Claims on MDBs | **6,064** | **-** | - | - |
| Claims on banks | **533,412** | **1,902** | 405,199 | 915 |
| Claims on corporates | **931,421** | **350,645** | 794,502 | 290,990 |
| Regulatory retail exposure | **974,557** | **-** | 771,959 | - |
| Past due exposure | **10,666** | **234** | 15,691 | 3,395 |
| Investments in real estate | **23,397** | **-** | 25,637 | - |
| Investments and financing to customers | **386,268** | **227,770** | 337,252 | 231,416 |
| Sukuk exposures | **19,045** | **-** | 27,037 | - |
| Other exposures | **108,998** | **-** | 103,638 | - |
| | **3,230,844** | **580,551** | 2,721,461 | 526,716 |





**6. RISK MANAGEMENT (CONTINUED)**

**6.2 Risk management processes (continued)**

**6.2.9 Gross, average and net credit exposures**

The Group’s gross credit exposures, average credit exposures and net credit exposures, the former adjusted for credit risk mitigation factors, respectively, are detailed below:

| | **2015** | | | 2014 | | |
|---|---|---|---|---|---|---|
| **Table 5** | **Gross credit exposure KD’000** | **Self-funded exposure KD’000** | **Funded through investments accounts exposure KD’000** | Gross credit exposure KD’000 | Self-funded exposure KD’000 | Funded through investments accounts exposure KD’000 |
| Cash | **25,598** | **7,253** | **18,345** | 24,555 | 6,298 | 18,257 |
| Claims on sovereigns | **165,776** | **70,034** | **95,742** | 171,279 | 50,000 | 121,279 |
| Claims on international organisations | **39,513** | **39,513** | **-** | 38,099 | 38,099 | - |
| Claims on public sector Entities | **6,129** | **1,737** | **4,392** | 6,613 | 1,696 | 4,917 |
| Claims on MDBs | **6,064** | **6,064** | **-** | - | - | - |
| Claims on banks | **533,412** | **157,774** | **375,638** | 405,199 | 114,667 | 290,532 |
| Claims on corporates | **931,421** | **333,286** | **598,135** | 794,502 | 267,852 | 526,650 |
| Regulatory retail exposure | **974,557** | **276,122** | **698,435** | 771,959 | 197,984 | 573,975 |
| Past due exposure | **10,666** | **3,022** | **7,644** | 15,691 | 4,024 | 11,667 |
| Investments in real estate | **23,397** | **23,397** | **-** | 25,637 | 25,637 | - |
| Investments and financing to customers | **386,268** | **109,442** | **276,826** | 337,252 | 86,495 | 250,757 |
| Sukuk exposures | **19,045** | **19,045** | **-** | 27,037 | 27,037 | - |
| Other exposures | **108,998** | **85,382** | **23,616** | 103,638 | 83,975 | 19,663 |
| | **3,230,844** | **1,132,071** | **2,098,773** | 2,721,461 | 903,764 | 1,817,697 |

| | **2015** | | | 2014 | | |
|---|---|---|---|---|---|---|
| **Table 6** | **Average credit exposure * KD’000** | **Self-funded exposure KD’000** | **Funded through investments accounts exposure KD’000** | Average credit exposure KD’000 | Self-funded exposure KD’000 | Funded through investments accounts exposure KD’000 |
| Cash | **23,913** | **6,265** | **17,648** | 29,714 | 9,153 | 20,561 |
| Claims on sovereigns | **160,077** | **60,399** | **99,678** | 103,679 | 33,361 | 70,318 |
| Claims on international organisations | **39,655** | **39,655** | **-** | 20,573 | 20,573 | - |
| Claims on public sector Entities | **5,934** | **1,540** | **4,394** | 7,006 | 2,104 | 4,902 |
| Claims on MDBs | **6,042** | **6,042** | **-** | 960 | 960 | - |
| Claims on banks | **473,055** | **131,897** | **341,158** | 439,394 | 146,433 | 292,961 |
| Claims on corporates | **884,303** | **301,009** | **583,294** | 778,355 | 291,996 | 486,359 |
| Regulatory retail exposure | **895,416** | **233,548** | **661,868** | 716,807 | 212,699 | 504,108 |
| Past due exposure | **12,174** | **3,162** | **9,012** | 18,485 | 5,628 | 12,857 |
| Investments in real estate | **24,390** | **24,390** | **-** | 21,663 | 21,663 | - |
| Investments and financing to customers | **380,781** | **99,033** | **281,748** | 332,813 | 99,679 | 233,134 |
| Sukuk exposures | **20,744** | **20,744** | **-** | 26,765 | 26,765 | - |
| Other exposures | **106,945** | **83,776** | **23,169** | 99,364 | 80,694 | 18,670 |
| | **3,033,429** | **1,011,460** | **2,021,969** | 2,595,578 | 951,708 | 1,643,870 |

* Based on quarterly average balances

**6. RISK MANAGEMENT (CONTINUED)**

**6.2 Risk management processes (continued)**

**6.2.9 Gross, average and net credit exposures (continued)**

| Table 7 | **2015** Net credit exposure KD'000 | Self-funded exposure KD'000 | Funded through investments accounts exposure KD'000 | 2014 Net credit exposure KD'000 | Self-funded exposure KD'000 | Funded through investments accounts exposure KD'000 |
|---|---|---|---|---|---|---|
| Cash | **25,598** | **7,253** | **18,345** | 24,555 | 6,298 | 18,257 |
| Claims on sovereigns | **165,776** | **70,034** | **95,742** | 171,279 | 50,000 | 121,279 |
| Claims on international organisations | **39,513** | **39,513** | **-** | 38,099 | 38,099 | - |
| Claims on public sector Entities | **6,129** | **1,737** | **4,392** | 6,613 | 1,696 | 4,917 |
| Claims on MDBs | **6,064** | **6,064** | **-** | - | - | - |
| Claims on banks | **531,510** | **157,235** | **374,275** | 404,284 | 114,430 | 289,854 |
| Claims on corporates | **580,776** | **229,733** | **351,043** | 503,512 | 187,838 | 315,674 |
| Regulatory retail exposure | **974,557** | **276,122** | **698,435** | 771,959 | 197,984 | 573,975 |
| Past due exposure | **10,433** | **2,956** | **7,477** | 12,296 | 3,154 | 9,142 |
| Investments in real estate | **23,397** | **23,397** | **-** | 25,637 | 25,637 | - |
| Investments and financing to customers | **158,498** | **44,907** | **113,591** | 105,836 | 27,144 | 78,692 |
| Sukuk exposures | **19,045** | **19,045** | **-** | 27,037 | 27,037 | - |
| Other exposures | **108,998** | **85,382** | **23,616** | 103,638 | 83,975 | 19,663 |
| | **2,650,294** | **963,378** | **1,686,916** | 2,194,745 | 763,292 | 1,431,453 |

As at 31 December 2015, **27.7%** of the Group's net credit risk exposure was rated by accredited External Credit Assessment Institutions (ECAIs), (31 December 2014: 28.15%) as detailed below:

| Table 8 | **2015** Net credit exposure KD'000 | Rated exposure KD'000 | Unrated exposure KD'000 | 2014 Net credit exposure KD'000 | Rated exposure KD'000 | Unrated exposure KD'000 |
|---|---|---|---|---|---|---|
| Cash | **25,598** | **-** | **25,598** | 24,555 | - | 24,555 |
| Claims on sovereigns | **165,776** | **165,776** | **-** | 171,279 | 171,279 | - |
| Claims on international organisations | **39,513** | **39,513** | **-** | 38,099 | 38,099 | - |
| Claims on public sector Entities | **6,129** | **-** | **6,129** | 6,613 | - | 6,613 |
| Claims on MDBs | **6,064** | **-** | **6,064** | - | - | - |
| Claims on banks | **531,510** | **509,616** | **21,894** | 404,284 | 381,366 | 22,918 |
| Claims on corporates | **580,776** | **-** | **580,776** | 503,512 | - | 503,512 |
| Regulatory retail exposure | **974,557** | **-** | **974,557** | 771,959 | - | 771,959 |
| Past due exposure | **10,433** | **-** | **10,433** | 12,296 | - | 12,296 |
| Investments in real estate | **23,397** | **-** | **23,397** | 25,637 | - | 25,637 |
| Investments and financing to customers | **158,498** | **-** | **158,498** | 105,836 | - | 105,836 |
| Sukuk exposures | **19,045** | **19,045** | **-** | 27,037 | 27,037 | - |
| Other exposures | **108,998** | **-** | **108,998** | 103,638 | - | 103,638 |
| | **2,650,294** | **733,950** | **1,916,344** | 2,194,745 | 617,781 | 1,576,964 |





**6. RISK MANAGEMENT (CONTINUED)**

**6.2 Risk management processes (continued)**

**6.2.9 Gross, average and net credit exposures (continued)**

The Group uses external ratings (where available) from Fitch, S&P and Moody's to supplement internal ratings during the process of determining credit limits. Unrated public issue instruments are risk-weighted at 100% for capital adequacy purposes.

The geographical distribution of the gross credit exposure before taking into consideration credit enhancements is as detailed below:

**31 December 2015**

| Table 9 | Middle East KD'000 | North America KD'000 | Europe KD'000 | Asia & Others KD'000 | Total KD'000 |
|---|---|---|---|---|---|
| Cash | **25,598** | **-** | **-** | **-** | **25,598** |
| Claims on sovereigns | **154,311** | **-** | **5,159** | **6,306** | **165,776** |
| Claims on international organisations | **-** | **-** | **-** | **39,513** | **39,513** |
| Claims on public sector Entities | **6,129** | **-** | **-** | **-** | **6,129** |
| Claims on MDBs | **6,064** | **-** | **-** | **-** | **6,064** |
| Claims on banks | **453,261** | **2,549** | **73,400** | **4,202** | **533,412** |
| Claims on corporates | **928,036** | **-** | **3,385** | **-** | **931,421** |
| Regulatory retail exposure | **974,557** | **-** | **-** | **-** | **974,557** |
| Past due exposure | **9,444** | **-** | **-** | **1,222** | **10,666** |
| Investments in real estate | **19,491** | **-** | **3,906** | **-** | **23,397** |
| Investments and financing to customers | **386,268** | **-** | **-** | **-** | **386,268** |
| Sukuk exposures | **16,116** | **-** | **2,929** | **-** | **19,045** |
| Other exposures | **90,945** | **33** | **-** | **18,020** | **108,998** |
| | **3,070,220** | **2,582** | **88,779** | **69,263** | **3,230,844** |

**31 December 2014**

| Table 9 | Middle East KD'000 | North America KD'000 | Europe KD'000 | Asia & Others KD'000 | Total KD'000 |
|---|---|---|---|---|---|
| Cash | 24,555 | - | - | - | 24,555 |
| Claims on sovereigns | 163,112 | - | 5,216 | 2,951 | 171,279 |
| Claims on international organisations | - | - | - | 38,099 | 38,099 |
| Claims on public sector Entities | 6,613 | - | - | - | 6,613 |
| Claims on banks | 337,228 | 3,164 | 57,662 | 7,145 | 405,199 |
| Claims on corporates | 791,608 | - | 2,894 | - | 794,502 |
| Regulatory retail exposure | 771,959 | - | - | - | 771,959 |
| Past due exposure | 13,617 | - | - | 2,074 | 15,691 |
| Investments in real estate | 19,864 | - | 5,773 | - | 25,637 |
| Investments and financing to customers | 335,721 | - | 1,531 | - | 337,252 |
| Sukuk exposures | 24,163 | - | 2,873 | - | 27,036 |
| Other exposures | 85,084 | 32 | - | 18,523 | 103,639 |
| | 2,573,524 | 3,196 | 75,949 | 68,792 | 2,721,461 |

**6. RISK MANAGEMENT (CONTINUED)**

**6.2 Risk management processes (continued)**

**6.2.9 Gross, average and net credit exposures (continued)**

The Group's gross credit exposure by residual contractual maturity is as detailed below:

**31 December 2015**

| **Table 10** | **Up to 3 months KD'000** | **3 – 6 months KD'000** | **6 – 12 months KD'000** | **Over 1 year KD'000** | **Total KD'000** |
|---|---|---|---|---|---|
| Cash | **25,598** | **-** | **-** | **-** | **25,598** |
| Claims on sovereigns | **65,662** | **40,236** | **57,640** | **2,238** | **165,776** |
| Claims on international organisations | **37,537** | **-** | **-** | **1,976** | **39,513** |
| Claims on public sector Entities | **-** | **3,505** | **-** | **2,624** | **6,129** |
| Claims on MDBs | **5,761** | **-** | **-** | **303** | **6,064** |
| Claims on banks | **488,668** | **31,356** | **13,225** | **163** | **533,412** |
| Claims on corporates | **441,879** | **141,169** | **162,756** | **185,617** | **931,421** |
| Regulatory retail exposure | **9,760** | **1,296** | **7,344** | **956,157** | **974,557** |
| Past due exposure | **10,666** | **-** | **-** | **-** | **10,666** |
| Investments in real estate | **-** | **-** | **-** | **23,397** | **23,397** |
| Investments and financing to customers | **276,576** | **92,805** | **16,648** | **239** | **386,268** |
| Sukuk exposures | **18,093** | **-** | **-** | **952** | **19,045** |
| Other exposures | **7,749** | **-** | **6,424** | **94,825** | **108,998** |
| | **1,387,949** | **310,367** | **264,037** | **1,268,491** | **3,230,844** |

**31 December 2014**

| **Table 10** | Up to 3 months KD'000 | 3 – 6 months KD'000 | 6 – 12 months KD'000 | Over 1 year KD'000 | Total KD'000 |
|---|---|---|---|---|---|
| Cash | 24,555 | - | - | - | 24,555 |
| Claims on sovereigns | 98,094 | 48,394 | 24,790 | - | 171,278 |
| Claims on international organisations | 38,099 | - | - | - | 38,099 |
| Claims on public sector Entities | - | 3,502 | - | 3,111 | 6,613 |
| Claims on banks | 390,304 | 5,048 | 1,930 | 7,917 | 405,199 |
| Claims on corporates | 385,600 | 211,846 | 102,917 | 94,138 | 794,501 |
| Regulatory retail exposure | 5,938 | 624 | 3,592 | 761,805 | 771,959 |
| Past due exposure | 15,692 | - | - | - | 15,692 |
| Investments in real estate | - | - | - | 25,637 | 25,637 |
| Investments and financing to customers | 267,698 | 55,922 | 13,067 | 566 | 337,253 |
| Sukuk exposures | - | - | 4,354 | 22,683 | 27,037 |
| Other exposures | 5,558 | - | 5,386 | 92,694 | 103,638 |
| | 1,231,538 | 325,336 | 156,036 | 1,008,551 | 2,721,461 |





**6. RISK MANAGEMENT (CONTINUED)**

**6.2 Risk management processes (continued)**

**6.2.10 "Past-due" and impairment provisions**

Credit facilities are classified as "past-due" when a payment has not been received on its contractual payment date, or if the facility is in excess of pre-approved limits.

A credit facility is considered as "past-due and impaired" if the profit or a principal instalment is past due for more than 90 days and if the carrying amount of the facility is greater than its estimated recoverable value.

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

| **Category** | **Criteria** |
|---|---|
| Watchlist | Irregular for a period up to 90 days (inclusive) |
| Substandard | Irregular for a period between 91 and 180 days (inclusive) |
| Doubtful | Irregular for a period between 181 days and 365 days (inclusive) |
| Bad | Irregular for a period exceeding 365 days |

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

The Group's impaired finance portfolio as at 31 December 2015 was **KD 19,523 thousand** against which a specific provision of **KD 8,720 thousand** has been made, (31 December 2014: KD 20,275 thousand and KD 5,380 thousand), as detailed below:

| | **2015** | | | 2014 | | |
|---|---|---|---|---|---|---|
| **Table 11** | **Impaired finance facilities KD'000** | **Related specific provision KD'000** | **Net balance KD'000** | Impaired finance facilities KD'000 | Related specific provision KD'000 | Net balance KD'000 |
| Claims on corporates | **14,814** | **7,123** | **7,691** | 16,654 | 3,756 | 12,898 |
| Regulatory retail exposure | **4,709** | **1,597** | **3,112** | 3,621 | 1,624 | 1,997 |
| | **19,523** | **8,720** | **10,803** | 20,275 | 5,380 | 14,895 |

The geographical distribution of "past-due and impaired "financing and the related specific provision are as follows:

| | **2015** | | | 2014 | | |
|---|---|---|---|---|---|---|
| **Table 12** | **Middle East KD'000** | **Asia KD'000** | **Total KD'000** | Middle East KD'000 | Asia KD'000 | Total KD'000 |
| Past due and impaired financing | **16,225** | **3,298** | **19,523** | 17,093 | 3,182 | 20,275 |
| Related specific provision | **6,408** | **2,312** | **8,720** | 4,126 | 1,254 | 5,380 |

In accordance with CBK regulations, a minimum general provision of 1% for cash facilities and 0.5% for non-cash facilities is made on all applicable credit facilities (net of certain restricted categories of collateral) which are not subject to specific provisioning.

The adequacy of provisions are regularly evaluated and monitored by the Provisions Committee.

The Bank's total provision as at 31 December 2015 was **KD 50,736 thousand** inclusive of a general provision of **KD 42,016 thousands**, (31 December 2014: KD 41,584 thousand and KD 36,204 thousand), as detailed below:

| **Table 13** | **2015 KD'000** | 2014 KD'000 |
|---|---|---|
| Claim on corporates | **32,196** | 28,430 |
| Regulatory retail exposure | **9,820** | 7,774 |
| | **42,016** | 36,204 |

The total general provision above includes **KD 1,586 thousand** relating to "non-cash" facilities in accordance with CBK regulations, (31 December 2014: KD 1,495 thousand).

## 6. RISK MANAGEMENT (CONTINUED)

### 6.2 Risk management processes (continued)

#### 6.2.10 "Past-due" and impairment provisions (continued)

The geographical distribution of the general provision on "cash" facilities is as follows:

| Table 14 | **2015** | 2014 |
|---|---|---|
| | **KD'000** | KD'000 |
| Middle east and north Africa | **40,396** | 34,665 |
| Europe | **34** | 44 |
| | **40,430** | 34,709 |

The analysis of specific and general provisions is further detailed in note 8 and 12 of the Group's consolidated financial statements.

### 6.3 "Market" risk

"Market" risk is defined as the potential loss in value of financial instruments caused by adverse movements in market variables such as profit rates, foreign exchange rates and equity prices.

Market risk results from uncertainty in future earnings arising from changes in profit rates, exchange rates, market prices and volatilities. Speculative Market Risk is not undertaken by the Bank but market risk arises from financing and investment activities.

The strategy for controlling market risk includes:

- Stringent controls and limits.
- Strict segregation of "front", "middle" and "back" office duties.
- Regular independent reporting of positions.
- Regular independent review of all controls and limits.

#### 6.3.1 Market-risk management framework

The Market-Risk Management Framework governs the Bank's activities related to market risk. Market risk arising from banking book activities is the primary responsibility of the Bank's Asset and Liability Management Executive Committee and managed within a structure of approved financing and position limits.

### 6.4 Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems failure, or from external events. When controls fail to perform, it can lead to legal or regulatory implications, or financial or reputational loss

#### 6.4.1 Operation- risk management framework

The Bank monitors its operational risks through an Operational-Risk Management Framework which defines roles and responsibilities for managing and reporting operational risk. The key components of this framework are Risk Control Self Assessments, comprehensive documented policies, procedures and internal controls.

Through the framework, line management is able to identify, assess and decide in what form and scale it can accept, control and reduce operational risk, together with the form of risk-prevention measures which are necessary. Furthermore, it embeds a culture of transparency of information, escalation of key issues, and accountability for issue resolution. The Bank's Risk Management collates and reviews actual loss data arising from the Bank's day-to-day operations to continuously refine its control arrangements.

The operational-risk framework is supplemented by regular reviews from the Bank internal audit function. The Bank has a Business Continuity Plan together with a fully-equipped Disaster Recovery Centre which is tested periodically.

The Bank's business processes are closely monitored to identify, assess, control and prevent potentially illicit use of the Bank's services for laundering money and/or financing terrorism. The Bank's "anti-money laundering" and "combating terrorism-financing" initiatives are regularly reviewed to ensure full compliance with legal and regulatory requirements and international best practices.

### 6.5 Liquidity risk

Liquidity risk is defined as the inability to generate sufficient financial resources to meet all obligations and commitments as they fall due, or having to access funds to meet payment obligations at an excessive cost. It is the policy of the Bank to maintain adequate liquidity at all times.

The Bank applies a prudent mix of liquidity controls which provide security of access to funds without undue exposure to increased costs of funds from the liquidation of assets, or aggressive bidding for deposits. Liquidity risk is monitored and evaluated daily to ensure that, over the short term and by major currency, the profile of projected future cash inflows is adequately matched to the maturity of liabilities.





## 6. RISK MANAGEMENT (CONTINUED)

### 6.6 Reputation and fiduciary risk

Reputation risk is defined as the current and prospective impact on earnings and capital arising from negative public opinion which will affect the ability to establish new relationships or services or to continue servicing existing relationships.

Management of reputation risk is an inherent feature of the Group's corporate culture which is embedded as an integral part of the internal control systems. Besides identification and management of risks, the internal control system also incorporates as an ethos the maintenance of business practices of the highest quality towards its customers, shareholders, regulators, general public and fiduciary and non-fiduciary clients.

Through its policies and practices Boubyan ensures proper screening of clients' risk profiles and performance expectations is conducted prior to making investment products or services available to them. Furthermore, once a product or service is sold, appropriate risk and performance projections are clearly communicated, and funds placed under management are treated with due care and professionalism.

During the year, Assets under Management at the Group decreased by **4.3%** to reach **KD 95,496 thousands** on 31 December 2015, (31 December 2014: 26.5% to reach KD 99,804 thousands).

## 7. COMPLIANCE WITH SHARI'A PRINCIPLES

Fatwa & Shari'a Supervisory Board of the Bank is responsible for monitoring the Bank's compliance with its issued fatwa and resolutions. The Shari'a Supervisory Board reviews and approves the contract and agreement forms after obtaining the necessary information to provide its opinion. Random samples of operations related to the Bank's transactions are reviewed through Shari'a supervision according to the annual Shari'a audit plan for all the departments and through the periodic reports provided by the Shari'a supervisory department about the audit processes, field visits, workflow and the validity of implementing the fatwa and resolutions issue by the Shari'a Supervisory Board. Accordingly, an annual report about the Bank's compliance with Shari'a fatwa and resolutions are issued according to those fatwa and resolutions and it is attached along with Bank's annual report and submitted to shareholders in the General Assembly. The external auditors have looked at the procedures adopted by the Shari'a Supervisory Board review all the Shari's committee minute of the meeting held during the year and regarding to this and based on CBK circular number (2/RBA/100/2003) issue the report describing the procedures that taken in place during the year to ensure that Bank compliance with Shari's rules and principles in addition, they disclosed in the report that Bank had comply with all Shari'a Supervisory Board rules and instructions.

According to the law no 46/2003 related to Zakat should be paid by listed companies, the Bank will pay **KD 354 thousands** for the year ended 31 December 2015, (31 December 2014: KD 289 thousands), and it is subject to auditing procedures by external consultant and approval by Ministry of Finance.

The violations related to compliance of Sharia's principles for the year ended 31 December 2015 is **Nil**, (31 December 2014: Nil).

The Shari's Supervisor Board's remuneration for the year ended 31 December 2015 is **KD 54 thousands**, (31 December 2014: KD 66 thousands).

## 8. INVESTMENT ACCOUNTS

Investment accounts receive a proportion of profit based on an agreed profit-sharing ratio and bear a share of loss.

Investment accounts take the form of unrestricted Mudaraba or Wakala contracts and include savings accounts and fixed 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. The profit sharing of saving investment accounts is calculated and distributed monthly and the rate of profits on the accounts balances were ranging between 0.1% and 1% based on the product and currency.

**Fixed-Term Deposit Investment Accounts**

These are fixed-term deposits based on the deposit contract executed between the Bank and the depositor. These deposits have a predetermined maturity date and renewed automatically for a similar period, unless the depositor notifies the Bank in writing of his/her desire not to renew the deposit. The profit sharing of fixed-term deposit investment accounts is calculated monthly and distributed on the month ended after the maturity date and the rate of profits on the accounts balances were ranging between 1% and 1.5% based on the product and currency.

Investment accounts are invested in pools of assets and receive a proportion share of net income from these assets after allocating it's proportion share of expenses. These assets are complying with the Codes of the Islamic Sharia'a, as approved by the Bank's Sharia'a Supervisory Board. The Bank doesn't maintain investment risk reserve or profit equalization reserve.

A weighting factor of 50% is used for credit risk-weighted exposures financed from investment accounts.

## 9. COMPOSITION OF CAPITAL

### 9.1 Composition of Regulatory Capital

For regulatory purposes, the capital base is divided into:

- Common Equity Tier 1
- Tier 1 Capital
- Total Capital

Common Equity Tier 1 Capital comprises share capital, share premium, retained earnings, eligible reserves and related eligible non-controlling interests. The book values of Goodwill and Intangibles are deducted along with other regulatory adjustments.

Tier 1 Capital consists of Common Equity Tier 1 Capital and Additional Tier 1 Capital which includes eligible portions of non-controlling interests.

Total Regulatory Capital includes Tier 1 Capital and Tier 2 Capital which consists of the allowed portions of general provisions and certain additional eligible non-controlling interests.

The below table summarizes the composition of capital and ratios:

| | **2015** | 2014 |
|---|---|---|
| **Table 15** | **KD'000** | KD'000 |
| Common Equity Tier 1 Capital before regulatory adjustments | **308,493** | 286,965 |
| **Less:** | | |
| Total regulatory adjustments to Common Equity Tier 1 | **27,978** | 28,731 |
| Deductions from Capital Base arising from Investments in FIs where ownership is > 10% | **21,151** | 29,184 |
| **Common Equity Tier 1 Capital (CET1)** | **259,364** | 229,050 |
| Additional Tier 1 Capital (AT1) | **230** | 731 |
| **Tier 1 Capital (T1 = CET1 + AT1)** | **259,594** | 229,781 |
| Tier 2 Capital (T2) | **18,332** | 15,148 |
| **Total Capital (TC = T1 + T2)** | **277,926** | 244,929 |
| Total risk-weighted assets | **1,631,425** | 1,356,592 |
| **Capital ratios and buffers** | | |
| Common Equity Tier 1 Capital (as percentage of risk-weighted assets) | **15.90%** | 16.88% |
| Tier 1 Capital (as percentage of risk-weighted assets) | **15.91%** | 16.94% |
| Total Regulatory Capital (as percentage of risk-weighted assets) | **17.04%** | 18.05% |
| **National minima** | | |
| Common Equity Tier 1 minimum ratio including Capital Conservation Buffer | **9.00%** | 8.50% |
| Tier 1 minimum ratio | **10.50%** | 10.00% |
| Total capital minimum ratio excluding CCY and D-SIB buffers | **12.50%** | 12.00% |

A detailed breakdown of the Group's regulatory capital position under the Common Disclosures template as stipulated under the Pillar 3 section of the CBK Basel III Capital Adequacy framework is presented in Table 24.





## 10. RECONCILIATION REQUIREMENTS

The basis for the scope of consolidation for accounting and regulatory purposes is consistent for the Group. In order to provide a full reconciliation of all regulatory capital elements to the balance sheet in the audited financial statements, a three-step approach has been mandated under the Pillar 3 disclosures section of the CBK Basel III framework.

Table 16 provides the comparison (Step1) of the balance sheet published in the consolidated financial statement and the balance sheet under the regulatory scope of consolidation. Lines have been expanded and referenced with letters (Step 2) to display the relevant items of the regulatory capital.

| **31 December 2015**<br>**Table 16 - Step 1 and 2 of Reconciliation requirements** | Balance sheet as in published financial statements | Under regulatory scope of consolidation | Reference |
|---|---|---|---|
| | **KD'000** | **KD'000** | |
| **Assets** | | | |
| Cash and cash equivalent | 465,259 | 465,259 | |
| Due from banks | 218,076 | 218,076 | |
| Islamic financing to customers | 2,171,794 | 2,171,794 | |
| of which general provisions(netted above) capped for Tier 2 inclusion | 18,288 | 18,288 | A |
| Financial assets at fair value through profit or loss | 15,388 | 15,388 | |
| Available for sale investments | 126,307 | 126,307 | |
| Investment in associates | 79,713 | 79,713 | |
| of which goodwill | 27,410 | 27,410 | B |
| of which investments in the capital of banking entities above the threshold deduction that are outside the scope of regulatory consolidation | 21,151 | 21,151 | C |
| Investment properties | 23,397 | 23,397 | |
| Other assets | 14,169 | 14,169 | |
| Property and equipment | 18,782 | 18,782 | |
| **Total assets** | **3,132,885** | **3,132,885** | |
| **Liabilities** | | | |
| Due to banks | 382,749 | 382,749 | |
| Depositors' accounts | 2,398,935 | 2,398,935 | |
| Other liabilities | 30,402 | 30,402 | |
| **Total liabilities** | **2,812,086** | **2,812,086** | |
| **Equity** | | | |
| Share capital | 206,325 | 206,325 | D |
| Share premium | 62,896 | 62,896 | E |
| Proposed bonus shares | 10,316 | 10,316 | F |
| Treasury shares | (568) | (568) | G |
| Statutory reserve | 9,998 | 9,998 | H |
| Voluntary reserve | 9,570 | 9,570 | I |
| Share based payment reserve | 1,171 | 1,171 | J |
| Fair value reserve | 4,159 | 4,159 | K |
| Foreign currency translation reserve | (9,262) | (9,262) | L |
| Retained earnings | 13,320 | 13,320 | M |
| Proposed cash dividends | 10,307 | 10,307 | N |
| **Equity attributable to equity holders of the Bank** | **318,232** | **318,232** | |
| Non-controlling interests | **2,567** | **2,567** | |
| of which limited recognition eligible as CET1 Capital | | | |
| of which limited recognition eligible as AT1 Capital | 230 | 230 | O |
| of which limited recognition eligible as Tier 2 Capital | 44 | 44 | P |
| **Total equity** | **320,799** | **320,799** | |
| **Total liabilities and equity** | **3,132,885** | **3,132,885** | |

## 10. RECONCILIATION REQUIREMENTS (CONTUNUED)

| 31 December 2014<br>Table 16 - Step 1 and 2 of Reconciliation requirements | Balance sheet as in published financial statements | Under regulatory scope of consolidation | Reference |
|---|---|---|---|
| | KD'000 | KD'000 | |
| **Assets** | | | |
| Cash and cash equivalent | 314,821 | 314,821 | |
| Due from banks | 263,593 | 263,593 | |
| Islamic financing to customers | 1,805,115 | 1,805,115 | |
| of which general provisions(netted above) capped for Tier 2 inclusion | 15,002 | 15,002 | A |
| Financial assets at fair value through profit or loss | 12,738 | 12,738 | |
| Available for sale investments | 113,852 | 113,852 | |
| Investment in associates | 85,728 | 85,728 | |
| of which goodwill | 27,968 | 27,968 | B |
| of which investments in the capital of banking entities above the threshold deduction that are outside the scope of regulatory consolidation | 29,184 | 29,184 | C |
| Investment properties | 25,637 | 25,637 | |
| Other assets | 10,944 | 10,944 | |
| Property and equipment | 15,502 | 15,502 | |
| **Total assets** | **2,647,930** | **2,647,930** | |
| **Liabilities** | | | |
| Due to banks | 226,739 | 226,739 | |
| Depositors' accounts | 2,082,854 | 2,082,854 | |
| Other liabilities | 37,235 | 37,235 | |
| **Total liabilities** | **2,346,828** | **2,346,828** | |
| **Equity** | | | |
| Share capital | 196,500 | 196,500 | D |
| Share premium | 62,896 | 62,896 | E |
| Proposed bonus shares | 9,825 | 9,825 | F |
| Treasury shares | (763) | (763) | G |
| Statutory reserve | 6,283 | 6,283 | H |
| Voluntary reserve | 6,015 | 6,015 | I |
| Share based payment reserve | 864 | 864 | J |
| Fair value reserve | 5,082 | 5,082 | K |
| Foreign currency translation reserve | (6,468) | (6,468) | L |
| Retained earnings | 5,978 | 5,978 | M |
| Proposed cash dividends | 9,815 | 9,815 | N |
| **Equity attributable to equity holders of the Bank** | **296,027** | **296,027** | |
| Non-controlling interests | **5,075** | **5,075** | |
| of which limited recognition eligible as CET1 Capital | | | |
| of which limited recognition eligible as AT1 Capital | 731 | 731 | O |
| of which limited recognition eligible as Tier 2 Capital | 146 | 146 | P |
| **Total equity** | **301,102** | **301,102** | |
| **Total liabilities and equity** | **2,647,930** | **2,647,930** | |





## 10. RECONCILIATIN RFQUIREMENTS (CONTINUED)

Table 17 provides the relevant lines under 'Table 24: Composition of Regulatory Capital' with cross references to the letters in Table 16, thereby reconciling (Step 3) the components of regulatory capital to the published balance sheet.

**31 December 2015**

| Relevant row number in common disclosure template | Table 17: Step 3 of Reconciliation requirements | Component regulatory capital | Source based on reference letters of the balance sheet from step 2 |
|---|---|---|---|
| | | KD'000 | KD'000 |
| | **Common Equity Tier 1 capital: instruments and reserves** | | |
| 1 | Directly issued qualifying common share capital plus related stock surplus | 206,325 | D |
| 2 | Retained earnings | 13,320 | M |
| 3 | Accumulated other comprehensive income (and other reserves) | 88,848 | E+H+I+J+K+L+F |
| 4 | Common share capital issued by subsidiaries and held by third parties (minority interest) | - | |
| 5 | **Common Equity Tier 1 Capital before regulatory adjustments** | 308,493 | |
| | **Common Equity Tier 1 Capital : regulatory adjustments** | | |
| 6 | Goodwill | 27,410 | B |
| 7 | Other intangibles other than mortgage-servicing rights (net of related tax liability) | - | |
| 8 | Investments in own shares | 568 | G |
| 9 | Deductions from Capital Base arising from Investments in FIs where ownership is > 10% | 21,151 | C |
| 10 | **Total regulatory adjustments to Common Equity Tier 1** | 49,129 | |
| 11 | **Common Equity Tier 1 Capital (CET1)** | 259,364 | |
| | **Additional Tier 1 capital : instruments** | | |
| 12 | Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1) | 230 | O |
| 13 | **Additional Tier 1 capital before regulatory adjustments** | 230 | |
| | **Additional Tier 1 Capital : regulatory adjustments** | | |
| 14 | Additional Tier 1 Capital (AT1) | 230 | |
| **15** | **Tier 1 Capital (T1 = CET1 + AT1)** | 259,594 | |
| | **Tier 2 Capital : instruments and provisions** | | |
| 16 | Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2) | 44 | P |
| 17 | General Provisions included in Tier 2 Capital | 18,288 | A |
| 18 | **Tier 2 Capital before regulatory adjustments** | 18,332 | |
| 19 | Total capital (TC = T1 + T2) | 277,926 | |

## 10. RECONCILIATIN RFQUIREMENTS (CONTINUED)

**31 December 2014**

| Relevant row number in common disclosure template | Table 17: Step 3 of Reconciliation requirements | Component regulatory capital | Source based on reference letters of the balance sheet from step 2 |
|---|---|---|---|
| | | KD'000 | KD'000 |
| | **Common Equity Tier 1 capital: instruments and reserves** | | |
| 1 | Directly issued qualifying common share capital plus related stock surplus | 196,500 | D |
| 2 | Retained earnings | 5,978 | M |
| 3 | Accumulated other comprehensive income (and other reserves) | 84,487 | E+H+I+J+K+L+F |
| 4 | Common share capital issued by subsidiaries and held by third parties (minority interest) | - | |
| 5 | **Common Equity Tier 1 Capital before regulatory adjustments** | 286,965 | |
| | **Common Equity Tier 1 Capital : regulatory adjustments** | | |
| 6 | Goodwill | 27,968 | B |
| 7 | Other intangibles other than mortgage-servicing rights (net of related tax liability) | - | |
| 8 | Investments in own shares | 763 | G |
| 9 | Deductions from Capital Base arising from Investments in FIs where ownership is > 10% | 29,184 | C |
| 10 | **Total regulatory adjustments to Common Equity Tier 1** | 57,915 | |
| 11 | **Common Equity Tier 1 Capital (CET1)** | 229,050 | |
| | **Additional Tier 1 capital : instruments** | | |
| 12 | Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1) | 731 | O |
| 13 | **Additional Tier 1 capital before regulatory adjustments** | 731 | |
| | **Additional Tier 1 Capital : regulatory adjustments** | | |
| 14 | Additional Tier 1 Capital (AT1) | 731 | |
| 15 | **Tier 1 Capital (T1 = CET1 + AT1)** | 229,781 | |
| | **Tier 2 Capital : instruments and provisions** | | |
| 16 | Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2) | 146 | P |
| 17 | General Provisions included in Tier 2 Capital | 15,002 | A |
| 18 | **Tier 2 Capital before regulatory adjustments** | 15,148 | |
| 19 | Total capital (TC = T1 + T2) | 244,929 | |





## 11. LEVERAGE RATIO

In October 2014, CBK issued the regulations on the 'Leverage ratio' introduced by BCBS as part of the regulatory reforms package. This transparent and non-risk based metric supplements the Capital ratio to act as a backstop measure to limit excessive build-up of on and off-balance sheet exposures.

The Leverage ratio is a separate, additional requirement from the risk-based capital requirement. It is defined as the 'capital' measure divided by the 'exposure' measure. The capital measure is made up of Tier 1 Capital. The exposure measure is a sum of on-balance sheet assets, derivative exposures; securities finance transactions and off-balance sheet exposures.

The Group is in compliance with the requirements stipulated by CBK for the Leverage ratio set at a minimum of 3%.

The Leverage Ratio for the Group at consolidated level is:

| | **2015** | 2014 |
|---|---|---|
| **Table 18** | | |
| Tier 1 Capital (KD' 000s) | **259,594** | 229,050 |
| Total Exposures (KD' 000s) | **3,286,647** | 2,773,981 |
| **Leverage Ratio (%)** | **7.90%** | 8.26% |

The below Table provides the details of the Total Exposures for Leverage Ratio:

| | **2015** | 2014 |
|---|---|---|
| **Table 19** | **KD'000** | KD'000 |
| On-balance sheet exposures | **3,084,326** | 2,590,786 |
| Off-balance sheet items | **202,321** | 183,195 |
| **Total Exposures** | **3,286,647** | 2,773,981 |

Table 25 provides details of the Leverage Ratio in the format stipulated for public disclosure under the Pillar 3 framework

### 11.1 Leverage Ratio Reconciliation

Table 20 provides the reconciliation of the balance sheet assets from the published financial statement with total exposure amount in the calculation of leverage ratio.

Summary comparison of accounting assets vs leverage ratio exposure measure

| | **2015** | 2014 |
|---|---|---|
| **Table 20** | **KD'000** | KD'000 |
| **Item** | | |
| Total consolidated assets as per published financial statements | **3,132,885** | 2,647,930 |
| Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation | **(48,559)** | (57,144) |
| Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure | **-** | - |
| Adjustments for derivative financial instruments | **-** | - |
| Adjustment for securities financing transactions (ie repos and similar secured lending) | **-** | - |
| Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures) | **202,321** | 183,195 |
| Other adjustments | **-** | - |
| **Leverage ratio exposure** | **3,286,647** | 2,773,981 |

## 12. LIQUIDITY COVERAGE RATIO DISCLOSURE

### 12.1Introduction

In December 2014, the Central Bank of Kuwait (CBK) issued a directive (2/RB/346/2014) to Islamic banks operating in Kuwait on the adoption of the Liquidity Coverage Ratio (LCR) as part of the Central Bank's implementation of the Basel III reforms.

The main objective of the Liquidity Coverage Ratio (LCR) is to ensure the short-term resilience of the liquidity risk management of banks by ensuring that they have sufficient high quality liquid assets (HQLA) to survive a significant stress scenario lasting for a period of 30 days.

### 12.2 Definition

The LCR is defined as a ratio of Islamic Sharia'a compliant HQLA to the total net cash outflows estimated for the next 30 'calendar' days. HQLA are classified into two categories: "Level 1" and "Level 2" with a cap on "Level 2" assets to the total HQLA. "Level 2 HQLA" are calculated after applying the hair cut provided by the Central Bank of Kuwait on their market values. The net cash outflows are calculated by applying cash outflow and inflow run off factors assigned by the Central Bank of Kuwait. These factors apply to the various categories of liabilities (outflows relating to retail and wholesale deposits, contingent funding obligations and undrawn commitments) and assets (inflows from retail and corporate financing receivables) maturing within 30 days.

The LCR is calculated by dividing the amount of unencumbered HQLA by the estimated net outflows over a stressed 30-day period.

### 12.3 Regulatory Scope of Reporting and Consolidation

The LCR is reported at local level, including head office and its branches in Kuwait.

The LCR is calculated on a total currency level. For follow up purposes only the LCR is prepared on a stand-alone basis for significant currencies. Significant currencies are defined as those whose aggregate liabilities (on- and off- balance sheet) constitute more than 5% of the bank's total aggregate liabilities. Accordingly, the Bank reports the LCR for Kuwaiti Dinar (KWD) and US Dollar (USD) denominated balances in addition to the total currency level.

### 12.4 Liquidity Policy and Contingency Funding Plan

The Bank's liquidity management is guided by its Liquidity Policy which is reviewed annually and approved by the Board of Directors. The Liquidity Policy document specifies the main goals, policies and procedures for managing liquidity risk. The Liquidity Policy outlines procedures to identify, measure and monitor liquidity risk parameters in line with regulatory and internal limits, under normal and stress scenarios.

The Liquidity Policy also encompasses the bank's Contingency Funding Plan (CFP), which is approved by the Board of Directors, charts the course to be followed under stressed conditions.

### 12.5 Funding Strategy and Liquidity Management

While the operational aspect of day-to-day cash flow and liquidity management rests with Treasury, other groups such as Consumer Banking Group (CBG), Corporate Banking Group (COR), Risk Management Department (RMD), and Financial Control Group (FCG) plays a key role in managing and monitoring the longer-term funding profile of the bank under the oversight of the Asset Liability Management Committee (ALCO).

The Bank's long-term strategy has been to maintain a strong and diversified liabilities profile. The bank has embraced a robust funding profile through its wide domestic retail customer base and the diversified wholesale funding customers. The bank's major wholesale funding counterparties comprise mostly of Kuwaiti government and quasi-sovereign agencies with which the Bank has established a strong and long-term relationship.

### 12.6 Results Analysis and Main Drivers

The Bank's HQLA during the three months ending 31 December 2015, was averaging at **KD 217** Million (post-haircut) against an average liquidity requirement of **KD 182 Million**. Hence, the LCR averaged **119%** during the last quarter of 2015

The HQLA is primarily comprised of Level 1 assets which represent cash and reserve balances with the CBK as well as debt issuances by sovereign and Islamic development banks in domestic and foreign currencies. Level 2 assets comprises of debt issuances by International Islamic Liquidity Management Corporation and other non-financial institutions in domestic and foreign currencies. Level 1 assets comprise of 78% of the total HQLA.





## 12. LIQUIDITY COVERAGE RATIO DISCLOSURE (CONTINUED)

### 12.7 Quantitative Information

Quantitative information on the Liquidity Coverage Ratio is provided in the table below. The values are calculated as the simple average of daily observations over the period between 1 October 2015 and 31 December 2015 for the Bank at Local level.

**Table 21**

**KD 000s**

| SL. | Description | Value before applying flow rates (average)** | Value after applying flow rates (average)** |
|---|---|---|---|
| **High-Quality Liquid Assets (HQLA)** | | | |
| 1 | Total HQLA (before adjustments) | | **217,275** |
| **Cash Outflows** | | | |
| 2 | Retail deposits and small business | | |
| 3 | • Stable deposits | - | - |
| 4 | • Less stable deposits | **503,659** | **77,752** |
| 5 | Deposit, investment accounts and unsecured wholesale funding excluding the deposits of small business customers: | | |
| 6 | • Operational deposits | - | - |
| 7 | • Non-operational deposits (other unsecured commitments) | **755,096** | **549,425** |
| 8 | Secured Funding | | - |
| 9 | Other cash outflows, including: | | |
| 10 | • Resulting from Shari'ah compliant hedging contracts | - | - |
| 11 | • Resulting from assets-backed sukuk and other structured funding instruments | - | - |
| 12 | • Binding credit and liquidity facilities | - | - |
| 13 | Other contingent funding obligations | **1,172,441** | **58,622** |
| 14 | Other contractual cash outflows obligations | **42,497** | **42,497** |
| 15 | **Total Cash Outflows** | | **728,296** |
| **Cash Inflows** | | | |
| 16 | Secured lending transactions | - | - |
| 17 | Inflows from the performing exposures (as per the counterparties) | **690,585** | **572,215** |
| 18 | Other cash Inflows | - | - |
| 19 | **Total Cash Inflows** | **690,585** | **572,215** |
| **LCR** | | | |
| 20 | Total HQLA (after adjustments) | | **217,275** |
| 21 | Net Cash Outflows | | **182,074** |
| 22 | LCR | | **119.3%** |

## 13. REMUNERATION DISCLOSURE

### 13.1 Qualitative Information

#### 13.1.1 Governance bodies

The Boubyan Bank Group's remuneration framework is under the supervision of the Board of Directors. As per the Bank's policies and charters, the Board is responsible to review and approve the remuneration policy and oversee the implementation of the remuneration framework.

The Board Nomination and Remuneration Committee (BNRC) comprises three non-executive Board members. Its main responsibility, in terms of remuneration mandates, is to support the board in setting the principles of the Group's remuneration policy and ensures effective implementation in accordance with the Bank's remuneration policy and Corporate Governance Code.

Boubyan Bank remuneration policy is developed and implemented at the Group level and covers Bank's subsidiaries.

The remuneration policy defines three major categories for remuneration treatment, governance and disclosures.

Senior Management: includes all employees in the positions of Assistant General Manager and above and staff whose hiring are subject to approval of regulators. The number of employees in this category as at 31 December 2015 was **33 employees**, (31 December 2014: 29 employees).

Material Risk Takers: includes all employees whose activities and decisions have a material impact on the risk profile of the Bank. The number of employees in this category as at 31 December 2015 was **23 employees**, (31 December 2014: 23 employees).

Financial and Risk Control: includes all head of divisions and head of groups in Financial Control, Risk Management, Compliance, Internal Audit and Anti-Money Laundering functions. The number of employees in this category as at 31 December 2015 was **13 employees**, (31 December 2014: 12 employees).

#### 13.1.2 Remuneration Structure and design

Boubyan Bank's remuneration policy is in line with the strategic objectives of the Group. The policy is designed mainly to attract, retain and motivate high-calibre, skilled and knowledgeable employees, thereby ensuring a sound risk management and sustained profitability.

The Bank's financial remuneration framework has been linked with long-term and short-term performance objectives. The Board-approved Bank's Strategy is transformed into Key Performance Indicators (KPIs) and remuneration is determined based on the achievement of those KPIs towards the overall Group strategy [including financial and non-financial criteria and Key Risk Indicators (KRIs), as appropriate].

The employees of the Bank are entitled to two categories of remuneration, which are as follows:

Fixed remuneration: such remuneration are defined in the employment agreements, and may include fixed salaries (i.e. basic salary , allowances and annual fixed pay as a percentage of basic salary) and other benefits (i.e. medical insurance, air-tickets, and schooling support),

Variable remuneration: such remuneration are driven mainly by performance and guided by the "Employee Incentive Plan". This is in the form of cash bonus and/or Employee Stock Options (ESOP).

The remuneration policy is reviewed by the Board Nomination and Remuneration Committee annually and any amendments should be approved by the Board of Directors.

The Risk Management, Compliance and internal audit functions are independent functions. The risk management and compliance functions are reporting to and assessed by the Board Risk Committee. The internal audit function is reporting to and assessed by the Board Audit Committee. The total remuneration for these positions are determined and approved by the Board Risk Committee and Board Audit committee as a fully independent parties.

Boubyan Bank considers its Group risk profile when determining its annual remuneration pool; the risk profile includes the key risks to which the Group is exposed such as strategic, credit, market, liquidity, and operational.

The overall variable remuneration pool is determined by taking into account of relevant risk metrics. The metrics used to determine the pool are linked with key risk indicators and they are in line with the Group's overall risk strategy. The Group applied the key risk indicators (KRIs) this year without significant change from last year's KRIs.





## 13. REMUNERATION DISCLOSURE (CONTINUED)

### 13.1 Qualitative Information (continued)

#### 13.1.3 An Overview on the Key Performance Indicators

The overall strategy of the Bank is set and approved by the Board and translated into KPIs. These are then documented and communicated to ensure the alignment of management activities to the strategy applied by Senior Management. These KPIs are monitored and reported to the Board on a regular basis.

Remuneration is determined based on the achievement of KPIs toward the overall Group strategy; this includes financial and non-financial criteria and Key Risk Indicators (KRIs) at Bank's level.

The Bank's Performance Management Policy sets the methodology of linking an individual's annual performance with the Bank's overall performance.

The annual remuneration pool for this year was approved by the Board of Directors after review, discussion and recommendation by the Board Nomination and Remuneration Committee. The percentage of approved remuneration was determined based on the Bank-level KPIs.

The performance appraisal form for each position identifies the quantitative weights of individual KPIs; the final scoring of the appraisal is linked with a quantitative formula to determine the level of remunerations.

Since the overall remuneration pool of the Group is linked to Group performance, the Group adjusts the remuneration percentages in case of weak performance and business recessions.

#### 13.1.4 Remuneration Adjustments

The annual remuneration amount (fixed and variable) is reviewed by the Board Nomination and Remuneration Committee and is then subject to review and approval by the Board of Directors'.

The Group remuneration deferment policy ensures an appropriate portion of the variable remuneration of senior employees (including those deemed to have a material impact on the risk profile of the organisation) is deferred.

The deferment of variable remuneration applies to the equity shares as per the ESOP terms. This deferred variable remuneration is subject to Clawback in the event of established fraud, misleading information or exceeding the approved risk limits.

#### 13.1.5 Types of Remuneration Components

The Bank has two main remuneration components (fixed and variable). The variable component is mainly linked with performance and is subject to the deferment approach as mentioned above.

The fixed component (salaries, benefits) is on cash basis, while the variable component is on cash or equity basis (ESOP).

The percentage between fixed and variable (cash and equity) is reviewed and approved by the Board on an annual basis.

In case weak performance and business recessions, the Group would try to minimise the percentage of variable remuneration, especially for the Senior Management and Material Risk-Takers.

## 13. REMUNERATION DISCLOSURE (CONTINUED)

### 13.2 Quantitative Information (continued)

During the year, the Board Nomination and Remuneration Committee met **5 times**, (31 December 2014: 4 times).

The total remuneration paid to the Committee members was **Nil**, (31 December 2014: Nil).

The quantitative disclosures detailed below cover only senior management and other material risk takers.

The number of employees having received a variable remuneration award during 2015 was **42 employees** and they represent **6.3%** of the total number of employees received a variable remuneration, (31 December 2014: 42 employees and they represent 6.8%).

The number of employees who received sign-on awards or guaranteed bonuses during 2015 was **Nil**, (31 December 2014: Nil).

The total amount of end-of-service benefit paid during 2015 was **KD 159 thousand**; this is related to **7 employees** (31 December 2014: KD 8 thousand related to 1 employee).

The total amount of outstanding deferred remuneration as at 31 December 2015 was **KD 1,588,** (31 December 2014: KD 1,250).

Total amount of deferred remuneration paid during 2015 was **KD 235 thousands,** (31 December 2014: KD 445 thousands).

Total salaries & remuneration granted during reported period

***Senior Management***

| Table 22 | 2015 Unrestricted KD'000 | 2015 Deferred KD'000 | 2014 Unrestricted KD'000 | 2014 Deferred KD'000 |
|---|---|---|---|---|
| **Fixed remuneration:** | | | | |
| - Cash | **3,049** | **-** | 3,097 | - |
| - Others (Note 1) | **-** | **581** | - | 361 |
| **Variable remuneration:** | | | | |
| - Cash | **729** | **-** | 684 | - |
| - ESOP | **-** | **730** | - | 673 |

***Material Risk Taker****

| Table 23 | 2015 Unrestricted KD'000 | 2015 Deferred KD'000 | 2014 Unrestricted KD'000 | 2014 Deferred KD'000 |
|---|---|---|---|---|
| **Fixed remuneration:** | | | | |
| - Cash | **1,959** | **-** | 2,008 | - |
| - ESOP | **-** | **337** | - | 208 |
| **Variable remuneration:** | | | | |
| - Cash | **508** | **-** | 496 | - |
| - ESOP | **-** | **505** | - | 486 |

Note 1: This consists of deferred end-of-service benefits in line with Boubyan Bank policy

***Employees Category***

| Table 24 | 2015 Number of employees | 2015 Remuneration Fixed and Variable KD'000 | 2014 Number of employees | 2014 Remuneration Fixed and Variable KD'000 |
|---|---|---|---|---|
| Senior Management | **33** | **5,089** | 34 | 4,815 |
| Material Risk Takers* | **23** | **3,309** | 23 | 3,193 |
| Financial and Risk Control | **13** | **1,062** | 12 | 880 |

* Material Risk Takers are identify as Senior Management





## 14. OTHER DISCLOSURES

### 14.1 Regulatory Capital Composition: Common Disclosure Template

| Row Number | Table 25 | 2015 | 2014 |
|---|---|---|---|
| | **Common Equity Tier 1 Capital: instruments and reserves** | **KD'000** | KD'000 |
| 1 | Directly issued qualifying common share capital plus related stock surplus | **279,538** | 259,395 |
| 2 | Retained earnings | **13,320** | 5,978 |
| 3 | Accumulated other comprehensive income (and other reserves) | **15,635** | 21,592 |
| 4 | Common share capital issued by subsidiaries and held by third parties (minority interest) | **-** | - |
| 5 | Common Equity Tier 1 capital before regulatory adjustments | **308,493** | 286,965 |
| | **Common Equity Tier 1 Capital : regulatory adjustments** | | |
| 6 | Goodwill (net of related tax liability) | **(27,410)** | (27,968) |
| 7 | Investments in own shares (if not already netted off paid-in capital on reported balance sheet) | **(568)** | (763) |
| 8 | Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold) | **(21,151)** | (29,184) |
| **9** | **Total regulatory adjustments to Common Equity Tier 1** | **(49,129)** | (57,915) |
| 10 | Common Equity Tier 1 Capital (CET1) | **259,364** | 229,050 |
| | **Additional Tier 1 Capital : instruments** | | |
| 11 | Additional Tier 1 instruments (and CET1 instruments not included in row 4) issued by subsidiaries and held by third parties (amount allowed in group AT1) | **230** | 731 |
| **12** | **Additional Tier 1 Capital before regulatory adjustments** | **230** | 731 |
| | **Additional Tier 1 Capital : regulatory adjustments** | | |
| 13 | Additional Tier 1 capital (AT1) | **-** | - |
| **14** | **Tier 1 Capital (T1 = CET1 + AT1)** | **259,594** | 229,781 |
| | **Tier 2 Capital : instruments and provisions** | | |
| 15 | Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2) | **44** | 146 |
| 16 | General Provisions included in Tier 2 Capital | **18,288** | 15,002 |
| **17** | **Tier 2 capital before regulatory adjustments** | **18,332** | 15,148 |
| | **Tier 2 Capital: regulatory adjustments** | | |
| 18 | National specific regulatory adjustments | **-** | - |
| 19 | Total regulatory adjustments to Tier 2 Capital | **-** | - |
| 20 | Tier 2 Capital (T2) | **18,332** | 15,148 |
| **21** | **Total Capital (TC = T1 + T2)** | **277,926** | 244,929 |
| 22 | Total risk-weighted assets | **1,631,425** | 1,356,592 |
| | **Capital ratios and buffers** | | |
| 23 | Common Equity Tier 1 (as percentage of risk-weighted assets) | **15.91%** | 16.94% |
| 24 | Tier 1 (as percentage of risk-weighted assets) | **15.90%** | 16.88% |
| 25 | Total capital (as percentage of risk-weighted assets) | **17.04%** | 18.05% |
| | **National minima** | | |
| 26 | Common Equity Tier 1 minimum ratio including Capital Conservation Buffer | **9.00%** | 8.50% |
| 27 | Tier 1 minimum ratio | **10.50%** | 10.00% |
| 28 | Total capital minimum ratio excluding CCY and D-SIB buffers | **12.50%** | 12.00% |

Boubyan Bank بنك بوبيان

**14. OTHER DISCLOSURES (CONTINUED)**

**14.2 Leverage Ratio: Common Disclosure Template**

**Table 26**

| | Item | 2015 KD 000's | 2014 KD 000's |
|---|---|---|---|
| | **On-balance sheet exposures** | | |
| 1 | On-balance sheet items (excluding Sharia compliant hedging contracts, but including collaterals) | **3,132,885** | 2,647,930 |
| 2 | (Asset amounts deducted in determining Basel III Tier 1 Capital) | **(48,559)** | (57,144) |
| **3** | **Total on-balance sheet exposures (excluding Sharia compliant hedging contracts) (sum of lines 1 and 2)** | **3,084,326** | 2,590,786 |
| | **Exposures to Sharia compliant hedging contracts** | | |
| 4 | Replacement cost associated with all Sharia compliant hedging contracts (i.e. net of eligible cash variation margin) | **-** | - |
| 5 | Add-on amounts for potential future exposures " PFE" associated with all Sharia compliant hedging contracts | **-** | - |
| 6 | Gross-up for the collateral of Sharia compliant hedging contracts provided where deducted from the balance sheet assets pursuant to the Bank's accounting policy. | **-** | - |
| 7 | (Deductions of receivables assets for cash variation margin provided in with all Sharia compliant hedging contracts ) | **-** | - |
| 8 | (Bank's exposures to exempted Central counter parties "CCP" ) | **-** | - |
| **9** | **Total exposures of Sharia compliant hedging contracts (sum of lines 4 to 8)** | **-** | - |
| | **Other off-balance sheet exposures** | | |
| 10 | Off-balance sheet exposure (before any adjustment for credit conversion factors) | **1,200,570** | 1,085,500 |
| 11 | (Adjustments for conversion to credit equivalent amounts) | **(998,249)** | (902,305) |
| **12** | **Off-balance sheet items (sum of lines 10 and 11)** | **202,321** | 183,195 |
| | **Capital and total exposures** | | |
| **13** | **Tier 1 Capital** | **259,594** | 229,050 |
| **14** | **Total exposures (sum of lines 3, 9,12)** | **3,286,647** | 2,773,981 |
| | **Leverage ratio** | | |
| **15** | **Leverage ratio (Tier 1 Capital (13)/total exposures (14))** | **7.90%** | 8.26% |

# Report of Fatwa & Shari'a Supervisory Board

## Report of Fatwa & Shari'a Supervisory Board

Date: 23 Rabi' Al-Awwal 1437 A.H.
Corresponding to: 04 January 2016

In the Name of Allah, the Most Gracious, the Most Merciful

**Report of the Fatwa and Shari'a Supervisory Board**
**From 01.01.2015 to 31.12.2015**

**To the Shareholders of Boubyan Bank**

Praise be to Allah, the Almighty, and Peace and Blessings be upon our Prophet Muhammad, his Folk, and Companions All.

By virtue of the resolution of the General Assembly to appoint the Fatwa and Shari'a Supervisory Board of Boubyan Bank (the "Board"), and assigning us with these duties, we hereby provide you with the following report:

We, at the Fatwa and Shari'a Supervisory Board of Boubyan Bank, have reviewed the principles adopted and the contracts pertinent to the transactions of the Bank for the period from 1/1/2015 to 31/12/2015. We have observed the due review and revision necessary to express our opinion on the Bank's compliance with the rulings and principles of the Noble Islamic Shari'a as well as its compliance with the Fatwa, resolutions, principles and guidelines previously issued or set by the Board. The management of the Bank is entrusted with implementation of such rulings, principles and Fatwa while the Board's responsibility is limited to expressing an independent opinion in light of the transactions submitted and presented to it.

We have exercised proper observation and review that covered review of contracts and procedures followed in the Bank by testing each type of transactions, and we have obtained all the information and explanations necessary to express an opinion on the extent to which the Bank's activities are in compliance with the rulings of the Noble Islamic Shari'a. In our opinion, Boubyan Bank's contracts, documents and operations during the period from 1-1-2015 to 31-12-2015, presented to us, have all been concluded as per the rulings and principles of the Noble Islamic Shari'a.

We invoke the Almighty Allah to rightly guide the Bank's management to better serve our noble religion, our dear country and to put everyone on the right path. Verily, Allah is the Arbiter of All Success.
Peace be with you.

Peace and blessings be upon our Prophet, Muhammad, his Folk and Companions All.

Sheikh Dr. Abdul Aziz K. Al-Qassar

Sheikh Dr. Essam K. Al-Enezi

Sheikh Dr. Ibrahim A. Al-Rashed

Sheikh Dr. Mohammed O. Al-Fazie



BOUBYAN BANK K.S.C. AND SUBSIDIARIES

بنك بوبيان
Boubyan Bank

CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2015

EY
Building a better working world

Ernst & Young
Al Aiban, Al Osaimi & Partners
P.O. Box 74
18–21st Floor, Baitak Tower
Ahmed Al Jaber Street
Safat Square 13001, Kuwait

Tel: +965 2295 5000
Fax: +965 2245 6419
kuwait@kw.ey.com
ey.com/mena

Deloitte.
Deloitte & Touche
Al-Wazzan & Co.

Ahmed Al-Jaber Street, Sharq
Dar Al-Awadi Complex, Floors 7 & 9
P.O. Box 20174 Safat 13062 or
P.O. Box 23049 Safat 13091 Kuwait

Tel : + 965 22408844, 22438060
Fax: + 965 22408855, 22452080

www.deloitte.com

**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 K.S.C.P. (the "Bank") and its subsidiaries (collectively "the Group"), which comprise the consolidated statement of financial position as at 31 December 2015, 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.



EY
Building a better working world

Deloitte.

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

*Opinion*
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2015, 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.

**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 its executive regulations, 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 and its executive regulations, have occurred during the year ended 31 December 2015 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 2015 that might have had a material effect on the business of the Bank or on its consolidated financial position.

WALEED A. AL OSAIMI
LICENCE NO. 68 A
ERNST & YOUNG
(AL-AIBAN, AL-OSAIMI & PARTNERS)

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

5 January 2016
Kuwait

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the year ended 31 December 2015

| | Notes | 2015 KD'000 | 2014 KD'000 |
|---|---|---|---|
| **Income** | | | |
| Murabaha and other Islamic financing income | | **101,462** | 83,692 |
| Distribution to depositors and Murabaha costs | 5 | **(22,120)** | (17,484) |
| **Net financing income** | | **79,342** | 66,208 |
| Net investment income | 6 | **2,200** | 4,986 |
| Net fees and commission income | 7 | **7,839** | 5,935 |
| Share of results of associates | 16 | **313** | (247) |
| Net foreign exchange gain | | **1,652** | 1,352 |
| Other income | | **7** | 171 |
| **Operating income** | | **91,353** | 78,405 |
| Staff costs | | **(22,933)** | (20,833) |
| General and administrative expenses | | **(13,624)** | (12,411) |
| Depreciation | | **(2,636)** | (2,178) |
| **Operating expenses** | | **(39,193)** | (35,422) |
| **Operating profit before provision for impairment** | | **52,160** | 42,983 |
| Provision for impairment | 8 | **(15,058)** | (12,952) |
| **Operating profit before deductions** | | **37,102** | 30,031 |
| Contribution to Kuwait Foundation for the Advancement of Sciences ("KFAS") | | **(327)** | (261) |
| National Labour Support Tax ("NLST") | | **(926)** | (736) |
| Zakat | | **(354)** | (289) |
| Board of directors' remuneration | | **(310)** | (240) |
| **Net profit for the year** | | **35,185** | 28,505 |
| **Attributable to:** | | | |
| Equity holders of the Bank | | **35,235** | 28,239 |
| Non-controlling interests | | **(50)** | 266 |
| **Net profit for the year** | | **35,185** | 28,505 |
| **Basic and diluted earnings per share attributable to the equity holders of the Bank (fils)** | 9 | **17.09** | 13.70 |

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



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

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2015

| | 2015 KD'000 | 2014 KD'000 |
|---|---|---|
| **Net profit for the year** | **35,185** | 28,505 |
| **Other comprehensive income** | | |
| **Other comprehensive (loss)/income to be reclassified to consolidated statement of profit or loss in subsequent periods:** | | |
| Change in fair value of available for sale investments | **(2,973)** | 947 |
| Net gains on available for sale investments transferred to consolidated statement of profit and loss | **(198)** | (86) |
| Impairment losses on available for sale investments transferred to consolidated statement of profit and loss | **2,248** | 1,364 |
| Foreign currency translation adjustments | **(2,794)** | 1,278 |
| **Other comprehensive (loss)/income for the year** | **(3,717)** | 3,503 |
| **Total comprehensive income for the year** | **31,468** | 32,008 |
| **Attributable to:** | | |
| Equity holders of the Bank | **31,518** | 31,742 |
| Non-controlling interests | **(50)** | 266 |
| **Total comprehensive income for the year** | **31,468** | 32,008 |

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

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2015

| | Notes | 2015 KD'000 | 2014 KD'000 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 10 | **465,259** | 314,821 |
| Due from banks | 11 | **218,076** | 263,593 |
| Islamic financing to customers | 12 | **2,171,794** | 1,805,115 |
| Financial assets at fair value through profit or loss | 13 | **15,388** | 12,738 |
| Available for sale investments | 14 | **126,307** | 113,852 |
| Investments in associates | 16 | **79,713** | 85,728 |
| Investment properties | 17 | **23,397** | 25,637 |
| Other assets | 18 | **14,169** | 10,944 |
| Property and equipment | | **18,782** | 15,502 |
| **Total assets** | | **3,132,885** | 2,647,930 |
| **Liabilities and Equity** | | | |
| **Liabilities** | | | |
| Due to banks | | **382,749** | 226,739 |
| Depositors' accounts | | **2,398,935** | 2,092,028 |
| Other liabilities | 19 | **30,402** | 28,061 |
| **Total liabilities** | | **2,812,086** | 2,346,828 |
| **Equity** | | | |
| Share capital | 20 | **206,325** | 196,500 |
| Share premium | 21 | **62,896** | 62,896 |
| Proposed bonus shares | 22 | **10,316** | 9,825 |
| Treasury shares | 23 | **(568)** | (763) |
| Statutory reserve | 24 | **9,998** | 6,283 |
| Voluntary reserve | 25 | **9,570** | 6,015 |
| Share based payment reserve | 26 | **1,171** | 864 |
| Fair value reserve | | **4,159** | 5,082 |
| Foreign currency translation reserve | | **(9,262)** | (6,468) |
| Retained earnings | | **13,320** | 5,978 |
| Proposed cash dividends | 22 | **10,307** | 9,815 |
| **Equity attributable to equity holders of the Bank** | | **318,232** | 296,027 |
| Non-controlling interests | | **2,567** | 5,075 |
| **Total equity** | | **320,799** | 301,102 |
| **Total liabilities and equity** | | **3,132,885** | 2,647,930 |

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.



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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

| | 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 2015** | **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** |
| Total comprehensive (loss) income for the year | - | - | - | - | - | - | - | **(923)** | **(2,794)** | **35,235** | - | **31,518** | **(50)** | **31,468** |
| Transfer to reserves | - | - | - | - | **3,715** | **3,555** | - | - | - | **(7,270)** | - | - | - | - |
| Issue of bonus shares | **9,825** | - | **(9,825)** | - | - | - | - | - | - | - | - | - | - | - |
| Cash dividend paid | - | - | - | - | - | - | - | - | - | - | **(9,815)** | **(9,815)** | - | **(9,815)** |
| Capital redemption of non-controlling interests | - | - | - | - | - | - | - | - | - | - | - | - | **(2,458)** | **(2,458)** |
| Share based payment (note 26) | - | - | - | - | - | - | **307** | - | - | **145** | - | **452** | - | **452** |
| Sales of treasury shares | - | - | - | **195** | - | - | - | - | - | **(145)** | - | **50** | - | **50** |
| Proposed bonus shares (note 22) | - | - | **10,316** | - | - | - | - | - | - | **(10,316)** | - | - | - | - |
| Proposed cash dividends (note 22) | - | - | - | - | - | - | - | - | - | **(10,307)** | **10,307** | - | - | - |
| **Balance at 31 December 2015** | **206,325** | **62,896** | **10,316** | **(568)** | **9,998** | **9,570** | **1,171** | **4,159** | **(9,262)** | **13,320** | **10,307** | **318,232** | **2,567** | **320,799** |
| 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 |

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

| | Notes | 2015 KD'000 | 2014 KD'000 |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Net profit for the year | | **35,185** | 28,505 |
| **Adjustments for:** | | | |
| Provision for impairment | 8 | **15,058** | 12,952 |
| Depreciation | | **2,636** | 2,178 |
| Foreign currency translation adjustments | | **(2,791)** | (1,487) |
| Net (gain)/loss from available for sale investments | | **(198)** | 10 |
| Net losses from financial assets at fair value through profit or loss | | **630** | 547 |
| Share of results of associates | | **(313)** | 247 |
| Dividend income | | **(1,824)** | (1,112) |
| Net unrealized loss/(gain) from change in fair value of investment properties | | **998** | (2,441) |
| Net loss/(gain) on sale of investment properties | | **180** | (270) |
| Share based payment reserve | | **452** | 261 |
| **Operating profit before changes in operating assets and liabilities** | | **50,013** | 39,390 |
| **Changes in operating assets and liabilities:** | | | |
| Due from banks | | **45,517** | 35,278 |
| Islamic financing to customers | | **(377,879)** | (338,678) |
| Other assets | | **(3,649)** | 572 |
| Due to banks | | **156,010** | (9,279) |
| Depositors' accounts | | **306,907** | 425,456 |
| Other liabilities | | **2,257** | 8,001 |
| Dividend income received | | **1,824** | 1,112 |
| **Net cash generated from operating activities** | | **181,000** | 161,852 |
| **INVESTING ACTIVITIES** | | | |
| Purchase of financial assets at fair value through profit or loss | | **(3,690)** | (8,765) |
| Proceeds from sale of financial assets at fair value through profit or loss | | **544** | 1,451 |
| Purchase of available for sale investments | | **(170,963)** | (95,211) |
| Proceeds from sale of available for sale investments | | **158,991** | 48,488 |
| Dividends received from associates | | **559** | 359 |
| Purchase of investment properties | | **(58)** | (6,916) |
| Proceeds from sale of investment properties | | **2,194** | 13,845 |
| Purchase of property and equipment | | **(5,916)** | (5,250) |
| **Net cash used in investing activities** | | **(18,339)** | (51,999) |
| **FINANCING ACTIVITES** | | | |
| Capital redemption of non-controlling interest | | **(2,458)** | (734) |
| Proceeds from exercise of share options | | **50** | 80 |
| Dividends paid | | **(9,815)** | - |
| **Net cash used in financing activities** | | **(12,223)** | (654) |
| Net increase in cash and cash equivalents | | **150,438** | 109,199 |
| Cash and cash equivalents at the beginning of the year | | **314,821** | 205,622 |
| **Cash and cash equivalents at the end of the year** | 10 | **465,259** | 314,821 |

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



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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

## 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 **1201** employees as at 31 December 2015 (1081 employees as at 31 December 2014).

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 5 January 2016 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 3.9.

### 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, investment properties and derivatives.

### 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 Changes in accounting policies and disclosures

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the previous year, except for the adoption of the following new or amended IFRS applicable to the Group.

**IFRS 3 Business Combinations (Effective for annual periods beginning on or after 1 July 2014)**

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value at each reporting date whether or not they fall within the scope of IAS 39.

**IAS 24 Related Party Disclosures (Effective for annual periods beginning on or after 1 July 2014)**

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

**IAS 40 Investment Property (Effective for annual periods beginning on or after 1 July 2014)**

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or a business combination.

These amendments did not have any material impact on the accounting policies, financial position or performance of the Group.

**2. BASIS OF PREPARATION (CONTINUED)**

**2.5 New standards and interpretations not yet adopted**

The following IFRS and Interpretations have been issued but are not yet effective and have not been early adopted by the Group. 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 consolidated financial statements, when adopted.

**IFRS 15 Revenue from Contracts with Customers:**

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 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.

**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. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**3.1 Basis of consolidation (continued)**

**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.

**3.1.4 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. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 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.

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 of financial assets that require delivery of assets within the time frame generally established by regulations or conventions in the market place.

**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.





## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.4 Financial instruments (continued)

### 3.4.1 Financial assets (continued)

**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.

**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.

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**3.4 Financial instruments (continued)**

**3.4.1 Financial assets (continued)**

**Available for sale investment**

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

Available for sale investment are 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 3.9) 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.

i) 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.





**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**3.5 Fair values (continued)**

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.

**3.7 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 other comprehensive income to consolidated statement of profit or loss. The cumulative loss that is reclassified from other comprehensive income 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.

#### 3.9.2 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. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 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.

### 3.13 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. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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.

**3.20 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 AND MURABAHA COSTS**

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**

| | **2015** | 2014 |
|---|---|---|
| | **KD'000** | KD'000 |
| Sukuk coupon income | **1,986** | 1,487 |
| Dividend income | **1,824** | 1,112 |
| Net rental income from investment properties | **-** | 233 |
| Net losses from financial assets at fair value through profit or loss | **(630)** | (547) |
| Net gains /(loss) from available for sale investments | **198** | (10) |
| Net (loss)/gain on sale of investment properties | **(180)** | 270 |
| Unrealized (loss)/gain from changes in fair value of investment properties | **(998)** | 2,441 |
| | **2,200** | 4,986 |

**7. NET FEES AND COMMISSION INCOME**

| | **2015** | 2014 |
|---|---|---|
| | **KD'000** | KD'000 |
| Gross fees and commission income | **10,812** | 8,385 |
| Fees and commission expenses | **(2,973)** | (2,450) |
| | **7,839** | 5,935 |

**8. PROVISION FOR IMPAIRMENT**

| | **2015** | 2014 |
|---|---|---|
| | **KD'000** | KD'000 |
| Provision for impairment of finance facilities | **9,951** | 11,497 |
| Impairment of investments | **2,672** | 1,455 |
| Impairment losses in associate | **2,435** | - |
| | **15,058** | 12,952 |

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

| | Specific | General | Total |
|---|---|---|---|
| | KD'000 | KD'000 | KD'000 |
| Balance at 1 January 2014 | 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 |
| Provided during the year | **4,139** | **5,812** | **9,951** |
| Recovery of written off balances | **1,463** | **-** | **1,463** |
| Written off balances during the year | **(2,262)** | **-** | **(2,262)** |
| Balance at 31 December 2015 | **8,720** | **42,016** | **50,736** |

**8. PROVISION FOR IMPAIRMENT (CONTINUED)**

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

| | Islamic finance to customers | Non-cash facilities | Total |
|---|---|---|---|
| | KD'000 | KD'000 | KD'000 |
| Balance at 1 January 2014 | 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 |
| Provided during the year | **9,860** | **91** | **9,951** |
| Recovery of written off balances | **1,463** | **-** | **1,463** |
| Written off balances during the year | **(2,262)** | **-** | **(2,262)** |
| Balance at 31 December 2015 | **49,150** | **1,586** | **50,736** |

At 31 December 2015, non-performing finance facilities amounted to **KD 10,803 thousand**, net of provision of **KD 8,720 thousand** (31 December 2014: KD 14,895 thousand, net of provision of KD 5,380 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 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.

| | **2015** | 2014 |
|---|---|---|
| Net profit for the year attributable to the equity holders of the Bank (KD'000) | **35,235** | 28,239 |
| Weighted average number of shares outstanding during the year (thousands of shares) | **2,061,510** | 2,061,216 |
| Basic and diluted earnings per share attributable to the equity holders of the Bank (fils) | **17.09** | 13.70 |

Earnings per share for the year ended 31 December 2014 was 14.39 fils per share before retroactive adjustment to the number of shares following the bonus issue (see note 22).

**10. CASH AND CASH EQUIVALENTS**

| | **2015** | 2014 |
|---|---|---|
| | **KD'000** | KD'000 |
| Cash on hand | **25,598** | 24,555 |
| Balances with banks – current accounts | **9,411** | 9,653 |
| Placement with banks maturing within seven days | **430,250** | 280,613 |
| | **465,259** | 314,821 |

**11. DUE FROM BANKS**

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

| | **2015** | 2014 |
|---|---|---|
| | **KD'000** | KD'000 |
| Kuwait & Middle East | **192,276** | 206,816 |
| Europe | **25,800** | 56,777 |
| | **218,076** | 263,593 |





**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** |
| **2015** | | | | |
| Corporate banking | **1,215,001** | **3,385** | **3,534** | **1,221,920** |
| Consumer banking | **999,024** | **-** | **-** | **999,024** |
| | **2,214,025** | **3,385** | **3,534** | **2,220,944** |
| Less: provision for impairment | **(46,804)** | **(34)** | **(2,312)** | **(49,150)** |
| | **2,167,221** | **3,351** | **1,222** | **2,171,794** |

| | 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 |

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

| | Specific | | General | | Total | |
|---|---|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 | **2015** | 2014 |
| | **KD'000** | KD'000 | **KD'000** | KD'000 | **KD'000** | KD'000 |
| Balance at beginning of the year | **5,380** | 3,707 | **34,709** | 31,745 | **40,089** | 35,452 |
| Provided during the year | **4,139** | 8,382 | **5,721** | 2,964 | **9,860** | 11,346 |
| Recovery of written off balances | **1.463** | 971 | **-** | - | **1.463** | 971 |
| Written off balances during the year | **(2,262)** | (7,680) | **-** | - | **(2,262)** | (7,680) |
| **Balance at end of the year** | **8,720** | 5,380 | **40,430** | 34,709 | **49,150** | 40,089 |

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

| | Corporate banking | | Consumer banking | | Total | |
|---|---|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 | **2015** | 2014 |
| | **KD'000** | KD'000 | **KD'000** | KD'000 | **KD'000** | KD'000 |
| Balance at beginning of the year | **3,756** | 2,369 | **1,624** | 1,338 | **5,380** | 3,707 |
| Provided during the year | **3,093** | 7,581 | **1,046** | 801 | **4,139** | 8,382 |
| Recovery of written off balances | **1,066** | 690 | **397** | 281 | **1,463** | 971 |
| Written off balances | **(792)** | (6,884) | **(1,470)** | (796) | **(2,262)** | (7,680) |
| **Balance at end of the year** | **7,123** | 3,756 | **1,597** | 1,624 | **8,720** | 5,380 |

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:

| | **2015** | 2014 |
|---|---|---|
| | **KD'000** | KD'000 |
| Islamic financing to customers | **19,523** | 20,275 |
| Specific provision for impairment | **(8,720)** | (5,380) |
| | **10,803** | 14,895 |

At 31 December 2015 management estimates the fair value of collaterals held against individually impaired Islamic finance facilities to be **KD 7,171 thousand** (31 December 2014: KD 23,800 thousand).

## 13. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | **2015** **KD'000** | 2014 KD'000 |
|---|---|---|
| Investment in unquoted securities | **2,560** | 2,995 |
| Investment in unquoted funds | **12,828** | 9,743 |
| | **15,388** | 12,738 |

## 14. AVAILABLE FOR SALE INVESTMENTS

| | **2015** **KD'000** | 2014 KD'000 |
|---|---|---|
| Investment in Sukuk | **96,805** | 77,982 |
| Investment in unquoted funds | **18,015** | 22,046 |
| Investment in unquoted securities | **10,153** | 11,906 |
| Investment in quoted securities | **1,334** | 1,918 |
| | **126,307** | 113,852 |

## 15. SUBSIDIARIES

Principal operating subsidiaries are as follows:

| Name of subsidiary | Country of incorporation | **2015 proportion of ownership interest and voting power %** | 2014 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 | **2015 proportion of ownership interest and voting power %** | 2014 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 |





## 16. INVESTMENTS IN ASSOCIATES (CONTINUED)

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

| | **2015** **KD'000** | 2014 KD'000 |
|---|---|---|
| Total assets | **634,139** | 585,845 |
| Total liabilities | **(518,104)** | (473,602) |
| Net assets | **116,035** | 112,243 |
| Group's share of net assets | **29,728** | 28,757 |

| | **2015** **KD'000** | 2014 KD'000 |
|---|---|---|
| Total revenue | **19,528** | 21,918 |
| Net profit | **322** | 2,447 |
| Group's share of results | **(440)** | 627 |

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

| | **2015** **KD'000** | 2014 KD'000 |
|---|---|---|
| Total assets | **1,206,572** | 1,444,575 |
| Total liabilities | **(1,122,595)** | (1,351,408) |
| Net assets | **83,977** | 93,167 |
| Group's share of net assets | **18,475** | 20,497 |
| Group's share of contingent liabilities | **4,032** | 4,955 |

| | **2015** **KD'000** | 2014 KD'000 |
|---|---|---|
| Total revenue | **46,640** | 42,776 |
| Net profit | **2,397** | (6,563) |
| Group's share of results | **410** | (1,445) |

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

| | **2015** **KD'000** | 2014 KD'000 |
|---|---|---|
| Total assets | **140,669** | 123,610 |
| Total liabilities | **(104,166)** | (61,584) |
| Net assets | **36,503** | 62,026 |
| Group's share of net assets | **8,582** | 14,036 |
| Group's share of contingent liabilities | **2,434** | 15,823 |

| | **2015** **KD'000** | 2014 KD'000 |
|---|---|---|
| Total revenue | **10,355** | 10,045 |
| Net profit | **1,412** | 2,737 |
| Group's share of results | **343** | 571 |

## 17. INVESTMENT PROPERTIES

The movement in the investment properties is as follows:

| | 2015 KD'000 | 2014 KD'000 |
|---|---|---|
| Balance at the beginning of the year | **25,637** | 30,245 |
| Additions during the year | **1,394** | 6,916 |
| Disposals during the year | **(2,447)** | (13,575) |
| Net unrealized (loss)/gain from change in fair value of investment properties | **(998)** | 2,441 |
| Foreign currency translation adjustments | **(189)** | (390) |
| Balance at the ending of the year | **23,397** | 25,637 |

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 2015.

## 18. OTHER ASSETS

| | 2015 KD'000 | 2014 KD'000 |
|---|---|---|
| Accrued income | **1,017** | 943 |
| Prepayments | **5,406** | 4,443 |
| Others | **7,746** | 5,558 |
| | **14,169** | 10,944 |

## 19. OTHER LIABILITIES

| | 2015 KD'000 | 2014 KD'000 |
|---|---|---|
| Creditors and accruals | **13,740** | 8,518 |
| Accrued staff benefits | **8,902** | 7,804 |
| Clearing accounts | **2,731** | 6,040 |
| General provision on non-cash facilities | **1,586** | 1,495 |
| Others | **3,443** | 4,204 |
| | **30,402** | 28,061 |

## 20. SHARE CAPITAL

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | Shares | KD'000 | Shares | KD'000 |
| Shares authorised, issued and paid up of 100 fils each comprised of **1,965,001,500** shares (2014: 1,661,802,886 shares) fully paid in cash and **98,250,070** shares (2014: 303,198,614 shares) issued as bonus shares | **2,063,251,570** | **206,325** | 1,965,001,500 | 196,500 |

## 21. SHARE PREMIUM

The share premium is not distributable except under specific circumstances as provided by the Companies Law No. 25 of 2012, as amended and its executive regulations

## 22. PROPOSED DIVIDEND

The board of directors recommended distribution of cash dividends of **5 fils** per share (2014: 5 fils) and bonus shares of **5%** (2014: 5%). The increase in capital was recorded in the commercial register on 10 March 2015) on outstanding shares as at 31 December 2015. 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:

| | 2015 | 2014 |
|---|---|---|
| Number of treasury shares | **1,790,413** | 1,930,589 |
| Treasury shares as a percentage of total issued shares - % | **0.0868%** | 0.0983% |
| Cost of treasury shares – KD thousand | **568** | 763 |
| Market value of treasury shares – KD thousand | **790** | 792 |
| Weighted average of market value per share (fils) | **0.427** | 0.512 |

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 **316 fils** (2014: 476 fils). The significant inputs into the model were a share price of **410 fils** (2014: 570 fils) at the grant date, an exercise price of 100 fils as shown above, a standard deviation of expected share price returns of **21%** (2014: 19%), 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 **501 days** (2014: 481 days) and the weighted average fair value of share options granted was **402 fils** (2014: 500 fils).

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

| | 2015 Number of share options | 2014 Number of share options |
|---|---|---|
| Outstanding at 1 January | **2,410,645** | 2,369,156 |
| Granted during the year | **1,821,007** | 1,259,683 |
| Cancelled during the year | **(340,107)** | (418,814) |
| Exercised during the year | **(491,980)** | (799,380) |
| Outstanding at 31 December | **3,399,565** | 2,410,645 |

The expense accrued on account of share based compensation plans for the year amounts to **KD 461 thousand** (31 December 2014: KD 406 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 **492 thousand shares** (2014: 799 thousands 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 | | | |
|---|---|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 | **2015** | 2014 |
| | | | | | **KD'000** | KD'000 |
| Islamic financing to customers | **8** | 10 | **3** | 1 | **3,918** | 4,650 |
| Depositors' accounts | **16** | 15 | **8** | 8 | **53,059** | 32,932 |
| Letters of guarantee and letters of credit | **1** | 1 | **-** | - | **43** | 18 |
| Revenues | | | | | **96** | 103 |
| Expenses | | | | | **(6)** | (17) |
| **Parent Company** | | | | | | |
| Due from banks | | | | | **72,021** | 8,366 |
| Due to banks | | | | | **124,310** | 42,554 |
| Revenues | | | | | **234** | 271 |
| Expenses | | | | | **(246)** | (290) |

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 5,713 thousand** as at 31 December 2015 (31 December 2014: KD 4,770 thousand).

**Compensation of key management personnel:**

Details of compensation for key management comprise the following:

| | **2015** | 2014 |
|---|---|---|
| | **KD'000** | KD'000 |
| Short-term benefits | **1,790** | 1,780 |
| Post-employment benefits | **373** | 283 |
| Share based compensation | **398** | 279 |
| | **2,561** | 2,342 |

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:

| | **2015** | 2014 |
|---|---|---|
| | **KD'000** | KD'000 |
| Guarantees | **184,644** | 172,768 |
| Acceptances and letters of credit | **49,756** | 43,120 |
| Other commitments | **3,812** | 914 |
| | **238,212** | 216,802 |

**Operating lease commitments:**

Future minimum lease payments:

| | **2015** | 2014 |
|---|---|---|
| | **KD'000** | KD'000 |
| Within one year | **2,400** | 1,993 |
| After one year but not more than five years | **5,259** | 7,761 |
| Total operating lease expenditure contracted for at the reporting date | **7,659** | 9,754 |





**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.

| **2015** | **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) | **47,293** | **27,758** | **(1,837)** | **4,625** | **1,503** | **79,342** |
| Share of results of associates | **-** | **-** | **313** | **-** | **-** | **313** |
| Operating income/(loss) | **49,339** | **34,490** | **2,392** | **6,277** | **(1,145)** | **91,353** |
| Depreciation | **(1,571)** | **(50)** | **(79)** | **(10)** | **(926)** | **(2,636)** |
| Net profit/ (loss) for the year | **27,232** | **27,357** | **(5,803)** | **5,876** | **(19,477)** | **35,185** |
| Total assets | **1,004,871** | **1,381,277** | **175,623** | **597,377** | **(26,263)** | **3,132,885** |
| Total liabilities | **1,034,387** | **258,201** | **20,009** | **1,497,611** | **1,878** | **2,812,086** |

| 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 |

*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.

| | Middle East & North Africa KD'000 | North America KD'000 | Europe KD'000 | Asia KD'000 | **Total KD'000** |
|---|---|---|---|---|---|
| **2015** | | | | | |
| Assets | **2,897,131** | **3,102** | **142,559** | **90,093** | **3,132,885** |
| Non-current assets (excluding financial instruments) | **52,442** | **-** | **3,906** | **-** | **56,348** |
| Liabilities and equity | **3,131,880** | **-** | **1,005** | **-** | **3,132,885** |
| Segment income/(expenses) | **91,678** | **40** | **(1,032)** | **667** | **91,353** |

| | Middle East & North Africa KD'000 | North America KD'000 | Europe KD'000 | Asia KD'000 | Total KD'000 |
|---|---|---|---|---|---|
| 2014 | | | | | |
| 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 |

## 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:

| | **2015** | | 2014 | |
|---|---|---|---|---|
| | **Gross exposure** | **Net exposure** | Gross exposure | Net exposure |
| | **KD'000** | **KD'000** | KD'000 | KD'000 |
| Islamic financing to customers | **2,171,794** | **1,375,208** | 1,805,115 | 1,157,148 |
| Contingent liabilities | **238,212** | **204,459** | 216,802 | 182,624 |

**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 2015 are **19.6%** (2014: 22.1%).

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** |
|---|---|---|---|---|---|
| | **KD'000** | **KD'000** | **KD'000** | **KD'000** | **KD'000** |
| **2015** | | | | | |
| Cash and cash equivalents (excluding cash on hand) | **389,441** | **2,543** | **47,494** | **183** | **439,661** |
| Due from banks | **192,276** | **-** | **25,800** | **-** | **218,076** |
| Islamic financing to customers | **2,167,458** | **-** | **3,351** | **985** | **2,171,794** |
| Available for sale investments (Sukuk) | **42,897** | **-** | **8,089** | **45,819** | **96,805** |
| Other assets (excluding accrued income and prepayments) | **7,746** | **-** | **-** | **-** | **7,746** |
| | **2,799,818** | **2,543** | **84,734** | **46,987** | **2,934,082** |
| Contingent liabilities | **226,094** | **-** | **281** | **8,025** | **234,400** |
| Commitments | **3,812** | **-** | **-** | **-** | **3,812** |
| Total credit risk exposure | **3,029,724** | **2,543** | **85,015** | **55,012** | **3,172,294** |

| | Middle East & North Africa | North America | Europe | Asia | Total |
|---|---|---|---|---|---|
| | KD'000 | KD'000 | KD'000 | KD'000 | KD'000 |
| 2014 | | | | | |
| 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 |

## 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:

| | **2015** | 2014 |
|---|---|---|
| | **KD'000** | KD'000 |
| Trading | **160,991** | 145,864 |
| Manufacturing | **83,672** | 73,327 |
| Banking and other financial institutions | **669,345** | 542,842 |
| Construction | **37,306** | 33,503 |
| Real Estate | **648,343** | 503,037 |
| Retail | **967,672** | 764,658 |
| Government | **165,776** | 182,914 |
| Others | **200,977** | 196,369 |
| | **2,934,082** | 2,442,514 |

#### 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** | | **Past due or impaired** | **Total** |
|---|---|---|---|---|
| | **High** | **Standard** | | |
| | **KD'000** | **KD'000** | **KD'000** | **KD'000** |
| **2015** | | | | |
| Cash and cash equivalents (excluding cash on hand) | **439,661** | **-** | **-** | **439,661** |
| Due from banks | **218,076** | **-** | **-** | **218,076** |
| Islamic financing to customers | **2,004,175** | **123,651** | **93,118** | **2,220,944** |
| Available for sale investments (Sukuk) | **96,805** | **-** | **-** | **96,805** |
| Other assets (excluding accrued income and prepayment) | **7,746** | **-** | **-** | **7,746** |
| | **2,766,463** | **123,651** | **93,118** | **2,983,232** |

| | Neither past due nor impaired | | Past due or impaired | Total |
|---|---|---|---|---|
| | High | Standard | | |
| | 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 |





## 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** |
| **2015** | | | | | | |
| **Up to 30 days** | **40,254** | **2,688** | **10,936** | **-** | **51,190** | **2,688** |
| **31 – 60 days** | **6,072** | **-** | **3,953** | **-** | **10,025** | **-** |
| **61 – 90 days** | **10,597** | **-** | **1,783** | **-** | **12,380** | **-** |
| **91 – 180 days** | **-** | **498** | **-** | **3,111** | **-** | **3,609** |
| **More than 180 days** | **-** | **11,628** | **-** | **1,598** | **-** | **13,226** |
| | **56,923** | **14,814** | **16,672** | **4,709** | **73,595** | **19,523** |

| | 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 |

At 31 December 2015 management estimates the fair value of collaterals held against individually past due or impaired Islamic finance facilities to **KD 7,171 thousand** (31 December 2014: KD 24,665 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.

| | | **2015** | | 2014 | |
|---|---|---|---|---|---|
| | | **Effect on profit** | **Effect on equity** | Effect on profit | Effect on equity |
| | | **KD'000** | **KD'000** | KD'000 | KD'000 |
| US Dollar | +5 | **131** | **-** | 96 | - |
| Sterling Pound | +5 | **4** | **-** | (1) | - |
| Euro | +5 | **5** | **-** | - | - |
| Indonesian Rupiah | +5 | **-** | **1,729** | - | 1,994 |
| Sudanese Pound | +5 | **58** | **258** | 33 | 251 |
| Japanese Yen | +5 | **8** | **-** | - | - |
| Others | +5 | **7** | **-** | 24 | - |

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 2015 would have increased equity by **KD 574 thousand** (31 December 2014: an increase of KD 691 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 128 thousand** (31 December 2014: an increase of KD 150 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** |
| **2015** | | | | | |
| **Assets** | | | | | |
| Cash and cash equivalents | **465,259** | **-** | **-** | **-** | **465,259** |
| Due from banks | **80,736** | **69,078** | **68,262** | **-** | **218,076** |
| Islamic financing to customers | **703,406** | **222,738** | **164,901** | **1,080,749** | **2,171,794** |
| Financial assets at fair value through profit or loss | **-** | **-** | **-** | **15,388** | **15,388** |
| Available for sale investments | **91,336** | **-** | **-** | **34,971** | **126,307** |
| Investments in associates | **-** | **-** | **-** | **79,713** | **79,713** |
| Investment properties | **-** | **-** | **-** | **23,397** | **23,397** |
| Other assets | **7,746** | **-** | **6,423** | **-** | **14,169** |
| Property and equipment | **-** | **-** | **-** | **18,782** | **18,782** |
| **Total assets** | **1,348,483** | **291,816** | **239,586** | **1,253,000** | **3,132,885** |
| **Liabilities and Equity** | | | | | |
| Due to banks | **382,749** | **-** | **-** | **-** | **382,749** |
| Depositors' accounts | **1,371,830** | **504,917** | **506,468** | **15,720** | **2,398,935** |
| Other liabilities | **6,179** | **-** | **13,741** | **10,482** | **30,402** |
| Equity | **-** | **-** | **-** | **320,799** | **320,799** |
| **Total liabilities and equity** | **1,760,758** | **504,917** | **520,209** | **347,001** | **3,132,885** |

| | 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 | 9,185 | 2,092,028 |
| Other liabilities | 16,915 | - | 11,018 | 128 | 28,061 |
| Equity | - | - | - | 301,102 | 301,102 |
| Total liabilities and equity | 1,465,374 | 498,896 | 373,245 | 310,415 | 2,647,930 |

**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 KD'000 | 3 to 6 months KD'000 | 6 to 12 months KD'000 | Over 1 year KD'000 | Total KD'000 |
|---|---|---|---|---|---|
| **2015** | | | | | |
| **Financial Liabilities** | | | | | |
| Due to banks | **383,356** | **-** | **-** | **-** | **383,356** |
| Depositors' accounts | **1,375,582** | **506,007** | **510,276** | **15,770** | **2,407,635** |
| | **1,758,938** | **506,007** | **510,276** | **15,770** | **2,790,991** |

| | Up to three months KD'000 | 3 to 6 months KD'000 | 6 to 12 months KD'000 | Over 1 year KD'000 | Total KD'000 |
|---|---|---|---|---|---|
| 2014 | | | | | |
| Financial Liabilities | | | | | |
| Due to banks | 201,264 | 5,031 | 20,832 | - | 227,127 |
| Depositors' accounts | 1,258,969 | 498,050 | 342,907 | 200 | 2,100,126 |
| | 1,460,233 | 503,081 | 363,739 | 200 | 2,327,253 |

**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 tables give 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.



BOUBYAN BANK K.S.C.P. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2015

**30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)**

**30.6 Fair value of financial instruments (Continued)**

| Financial assets | Fair value as at 2015 | Fair value as at 2014 | Fair value Hierarchy 2015 | Sector |
|---|---|---|---|---|
| Financial assets at fair value through profit or loss - *Unquoted securities* | **2,560** | 2,995 | Level 3 | Real Estate |
| Financial assets at fair value through profit or loss - *Unquoted funds* | **12,828** | 9,743 | Level 2 | Financial Institutions |
| Available for sale investments - *Sukuk* | **32,183** | 19,802 | Level 1 | Government |
| | **64,622** | 58,180 | Level 1 | Financial Institutions |
| Available for sale investments - *Unquoted funds* | **7,609** | 9,064 | Level 2 | Financial Institutions |
| | **6,244** | 6,468 | Level 2 | Real Estate |
| | **4,162** | 6,514 | Level 2 | Services |
| Available for sale investments - *Unquoted securities* | **1,712** | 2,018 | Level 3 | Financial Institutions |
| | **1,836** | 3,487 | Level 3 | Real Estate |
| | **6,605** | 6,401 | Level 3 | Services |
| Available for sale investments - *Quoted securities* | **886** | 1,348 | Level 1 | Real Estate |
| | **448** | 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).

| **2015** | **Level 1 KD'000** | **Level 2 KD'000** | **Level 3 KD'000** | **Total KD'000** |
|---|---|---|---|---|
| Financial assets at fair value through profit or loss | **-** | **12,828** | **2,560** | **15,388** |
| Available for sale investments | **98,139** | **18,015** | **10,153** | **126,307** |
| | **98,139** | **30,843** | **12,713** | **141,695** |

| 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 |

**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 2015 | Change in fair value | Impairment | Additions | Sale/ redemption | Exchange rate movements | At 31 December 2015 |
|---|---|---|---|---|---|---|---|
| | 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 | 2,995 | (435) | - | - | - | - | 2,560 |
| *Available for sale investments-* | | | | | | | |
| Unquoted securities | 11,906 | 397 | (1,098) | 336 | (1,495) | 107 | 10,153 |
| | 14,901 | (38) | (1,098) | 336 | (1,495) | 107 | 12,713 |

| | 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 |

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 2015 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 25 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 102 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 years ended 31 December 2015 and 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:

| | 2015 | 2014 |
|---|---|---|
| | KD'000 | KD'000 |
| Risk weighted assets | 1,631,425 | 1,356,592 |
| Capital required | 203,928 | 162,791 |
| Capital available | | |
| Tier 1 capital | 259,594 | 229,781 |
| Tier 2 capital | 18,332 | 15,148 |
| Total capital | 277,926 | 244,929 |
| Tier 1 capital adequacy ratio | 15.91% | 16.94% |
| Total capital adequacy ratio | 17.04% | 18.05% |

The Group's financial leverage ratio for the year ended 31 December 2015 is calculated in accordance with Central Bank of Kuwait circular number 2/RBA/ 343/2014 dated 21 October 2014 and is shown below:

| | 2015 | 2014 |
|---|---|---|
| | KD'000 | KD'000 |
| Tier 1 capital | 259,594 | 229,781 |
| Total exposures | 3,286,647 | 2,773,982 |
| Financial leverage ratio | 7.90% | 8.28% |

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 2015 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 2015 is **KD 1 thousand** (2014: KD 3 thousand) and their notional amounts outstanding as of 31 December 2015 are **KD 1,345 thousand** (2014: KD 43 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 95,496 thousand** (31 December 2014: KD 99,804 thousand) and the related income from these assets amounted to **KD 355 thousand** (31 December 2014: KD 307 thousand).