

Kuwait: 17/10/2018

Ref: 4034/2018

**To: The General Manager
Boursa Kuwait Company**

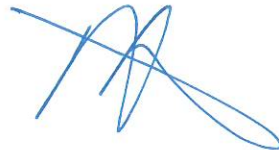
Dear Sir,

Analysts Conference Minutes for Q3-2018

Reference is made to the provisions of Article no. (8-4-2) of Boursa Kuwait Rulebook issued by virtue of Resolution no. 1 of 2018 concerning the continuing obligations of the listed companies classified under the “Premier Market Segment” under which Boubyan Bank is categorized.

We attach herewith a copy of the minutes of the Analysts’ Conference for 3th Quarter 2018 held via Live Webcast at 3:00 pm (Local Time) of Tuesday, October 16th 2018 as per the requirements of the said article.

Best regards,



**Abdullah Al Najran Al Tuwajjri
Deputy Chief Executive Officer**

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Q3 2018 Boubyan Bank KSCP – Earnings Call

Edited transcript of Boubyan Bank earnings conference call that took place on Tuesday 16 October 2018 at 15:00 Kuwait time

Corporate participants:

Mr. Abdulla Al-Tuwaijri – Deputy Chief Executive Officer

Mr. Noel Cherian – Assistant General Manager, Financial Control Group

Mr. Omar Bouhafs – Head of Investor Relations

Janany Vamadeva -Arqaam Capital

Janany
Vamadeva:

Good afternoon everyone, and thank you for joining us today. This is Janany Vamadeva and on behalf of Arqaam Capital I'm pleased to welcome you to Boubyan Bank's third quarter 2018 earnings conference call. I have here with me today Abdullah Al-Tuwaijri, Deputy Chief Executive Officer, Noel Cherian, Assistant General Manager Financial Control Group, and Omar Bouhafis, Head of Investor Relations. Without any further delay, I will now turn the call over to Omar.

Omar Bouhafis:

Thanks Janany for the introduction and good afternoon everyone and thank you for joining us today on our third quarter conference call.

I'd like to commence our call today by reading out a brief disclaimer which you can also find on page 2 of our presentation:

Disclaimer:

Certain statements in this presentation may constitute forward looking statements reflecting the banks expectations. Accordingly, these are subject to risk and uncertainty which may cause actual results to differ materially from the plans reflected within today's presentation. You are cautioned not to rely on such forward looking statements and the Bank does not assume any obligation to update its views of such risks and uncertainties or to publicly announce any revisions to the forward looking statements made herein

In addition to the disclaimer I've just read, I urge you all to read the full text of our disclaimer on page two of the presentation pack.

Our format for today's call will include:

An overview of Boubyan's performance Mr. Abdullah Al-Tuwaijri the Deputy CEO and followed by a presentation on the Bank's financial performance by Mr. Noel Cherian Assistant General Manager, Financial Control Group.

Following this we will have time for Q&A with attendees today. We will be receiving your questions through the webcast platform, and we will endeavor to answer all of your questions today, however if any questions are left unanswered due to time constraints, or you have any further questions you wish to pose, please feel free to contact us through the Boubyan Investor relations email address, which you can find on our website. Finally, a reminder that you can download the presentation pack through the link on screen.

With that said, I'd like to now hand you over to Mr. Abdulla Al-Tuwaijri, our Deputy CEO, to take you through a brief update on Boubyan's performance for the first nine months of 2018.

Abdullah Al-
Tuwaijri

Thank you Omar.

Good afternoon Ladies and Gentlemen and thank you for joining our 3rd quarter conference call for our results covering the nine-month period to 30 September 2018. Today, I will provide an overview of the financial results, along with an overview of the Bank's strategy and

operating environment before passing over to Mr. Noel Cherian, who will present the Bank's financial performance in more detail. We will then address your questions at the end of our presentation.

During the first nine-months of 2018, the Bank continued its growth across all our business lines which was witnessed in our financial results, profitability trends and all key performance indicators compared to 2017.

Net profit for the nine-months of 2018 grew by 18% to reach KD 40.3 million with this growth driven mainly from our core banking business. I would also like to highlight that our third quarter profit was KD 14.5 million with a growth rate of 20% compared to same period last year.

Our Financing portfolio increased by 12% reflecting our core business growth. Additionally, customer deposits grew by 9% which is a reflection of growing our franchise and the reputation of Boubyan in Kuwait.

With regard to other key performance indicators, our returns on average assets and average equity continue to show an increasing trend, while decreasing our cost to income ratio.

With this strong growth, it is important to preserve prudent risk management. We continue to book new and high quality assets which can be evidenced by our NPL ratio which is at a record low of 0.8% which is one of the lowest amongst peers in Kuwait.

Our market share in total financing portfolio by end of July 2018 was estimated to be around 8.3% compared to 7.7% one year ago.

We attribute this success in our performance to our 2020 strategy, this strategy focusses on domestic market expansion, customer service excellent and innovative banking products. Additionally, we continue to focus on affluent clients as well as youth and high net worth clients for consumer and aim to be the primary banker for large and mid-market corporates.

In line with our strategy, we opened our 42nd branch this year and we intend to continue opening new branches to grow our market share in the target segments.

This year witnessed the introduction of many services and products which were first introduced to the Kuwaiti market by Boubyan Bank. These include Msa3ed, the first artificial intelligence Chatbox service in Kuwait which also does financial transactions and the Digital

Murabaha which enables our clients to apply for financing products totally online. Also we did some integration with Government entities like Kuwait Credit Bank for instant credit of customer's checks into their accounts. As well as with the Public Authority for Civil Information for using e-signature to apply for banking products.

These products are tailored to deliver a superior experience for Boubyan customers and drive our long-term aspiration of becoming one of the leading Islamic banks in the region.

For operating environment, we believe that the economic indicators remained positive for Kuwait, supported by major government development projects in the pipeline and a rebounding consumer sector. Real estate market and prices also shows signs of stability. This is being reflected in the strong performance in the banking industry. The recovery of oil prices since the middle of last year has strengthened the fiscal position and this along with Kuwait's long term policy vision "Kuwait 2035" have enhanced consumer sentiments and investor confidence.

This is an overview about Boubyan and the major achievements. Now, Noel will take you through the Bank's financial performance in more detail.

Noel Cherian:

Thank you Mr. Abdullah and Good afternoon everyone. I am pleased to have this opportunity to take you through our financial results and profitability trends during the first nine months of 2018. Overall we had a very robust financial performance with a double-digit growth in profitability which has again well outperformed the market. This is a continuation of the Bank's growth trajectory which commenced in 2010 and reflects the successful implementation of our 2020 strategy which focuses on specific market segments in Kuwait and innovation.

As you can see on the top left chart on Page 7, the bank reported a net profit of KD 40.3 million for the nine month period 30 September 2018 with an earnings per share of 15.8 fils. That represents an increase of 18% over the comparable period in 2017. Operating profit is the main driver for this growth which grew by 18% to KD 63.4 million as shown on the top right chart.

The growth in operating profit is as a result of 15% increase in operating income, while controlling the growth in operating expenses at 9%. This growth in operating income is primarily driven by strong growth in the financing portfolio and fee income, which we will cover in more detail later in the presentation.

The third quarter net profit was KD 14.6 Million which was 20% higher than the same quarter last year. The operating profit for the third quarter was KD 21 Million which was 12% higher than third quarter of 2017.

This growth in profitability has resulted in improving our return on average equity to 12.7% while slightly enhancing the return on average assets to 1.31% over the comparable period in 2017.

Please note that, return on average equity is computed based on shareholders' equity after adjusting the net profit for the Tier 1 Sukuk cost.

Now moving to the operating income components on Page 8, we can see that Operating income for the current nine-months reached KD 104.9 million with an increase of 15%. The main driver for this is the growth in net financing income by 14% to reach KD 90.7 million. The third quarter operating and net financing income grew by 8% and 13% respectively compared to same quarter last year.

The financing income growth was driven by the growth in average income earning assets by 10% to KD 3.9 Billion compared to same period in 2017 while marginally increasing the net profit margin.

Kindly note that for consistency purposes we have calculated the NPM based on the daily average balances as against simple average in the previous 2 quarters.

The average net profit margin for the nine months period of 2018 was 3.08% compared to 2.98% in the same period of 2017. The Bank's yield during the first nine months of 2018 was 4.56% which was 35 bps higher than the comparable period in 2017. This increase was offset by the increase in cost of funds by 25 bps. The cost of funds for the current nine months was 1.48% compared to same period in 2017.

Net financing income, which is from core banking business comprises 86% of the operating income and is consistent with last year.

I would like to highlight to you that net financing income includes sukuk coupon income of KD 6 million which is classified as part of investment income in the published financial statements.

We will now look at the non-financing income for the current nine months. Fees, commissions and FX income grew by 40% to KD 12.8 million which also contributed to the growth in operating income. This was mainly driven by the growth in non-cash business, asset under

management and banking service fees as a reflection of the increase in the corporate and retail customers' base. The percentage of fees and commission income to total operating income increased to 12% from 10% in the same period last year. We consider this an important ratio which we actively track and the Bank aims to increase this.

There has been a marginal drop in the investment income (excluding Sukuk income) compared to last year mainly due to valuation losses on certain investment properties and loss on derecognition of an associate which was recorded in the third quarter of 2018.

Now, we will move to slide 9 and discuss the growth in operating expenses. As you are aware, the Bank is still in a growth phase and we are investing in scaling up our business and transforming our digital and technology infrastructure. With that said, we have been able to control the operating expenses growth at 9%. This has resulted into reducing cost to income ratio to 39.6% with cost to average assets slightly decreasing to 1.35%.

The composition of operating costs is mostly consistent with that of last year with increase in staffing expenses offset by decreases in other operational expenses.

If we drill down into provisions on slide 10, we can see that the total impairment provision during first nine months of 2018 was KD 21.1 Million out of which KD 12.7 Million was financing related. The bank continued its prudent provisioning to maintain the quality of assets and strengthening the balance sheet while maintaining the loss ratio at around 0.7% and total provisions to operating profit at around 33%. Now moving on to slide 12 let us look at the volumes

Overall, our total assets grew by 11% Year on Year. This increase was primarily driven by the growth in financing portfolio that dominates the balance sheet composition and represents 75% of total assets. Liquid assets to total assets ratio is maintained at a comfortable level of around 20%. In general, the composition of total assets is consistent to that of September and December 2017. Customers' deposits also increased by 9% Year on Year. This is in line with financing portfolio growth of 12%. This growth is mainly from retail and corporate deposits.

The growth in core retail deposits which is well diversified and more stable in nature was 28% which is well encouraging. This of course reflects the improved brand recognition and successful implementation of our strategy which is based on superior customer services and innovative products.

The bank has maintained its loan to deposit ratio at a comfortable level of approximately 87% compared to the regulatory maximum of 90%.

We now move on to slide 13 to discuss the performance of our financing portfolio. Our financing portfolio grew by KD 345 Million Year on Year or 12% against a broader market growth of less than 3%. Corporate financing grew by KD 190 Million or 12% and retail financing grew by KD 155M or 13%.

Consumer vs corporate financing ratio is same as that of previous periods and is one of the highest ratios in the market.

Boubyan's NPL ratio continues to be stable at around 0.8% which is one of lowest in the industry.

The Loss coverage ratio is 250% which is also one of the highest in the industry.

Now moving on to last section on Capital Ratios.

Currently, we consider the Bank to be adequately capitalised to support future growth needs with a capital adequacy ratio maintained at a comfortable level of 18.4%, well above the regulatory minimum of 13.5%. Risk Weighted Assets reported a Year on Year growth of 18% which is driven by asset growth of 11% and the regulatory adjustments related to phasing out real estate collateral which will be over by end of 2018. Regulatory capital mainly comprises of Common Equity Tier 1 which represent 77% of the total capital followed by additional Tier 1 at 17% which comprise of Boubyan Sukuk that was issued in May 2016. Leverage ratio was 9.4%, much higher than the regulatory minimum of 3%.

With this I would like to conclude my briefing on the financial performance during the nine month period of 2018 and thank you for your attendance. Now, I would like to handover to the operator for the Q&A session.

Janany
Vamadeva::

Thank you. We will now start our Q&A session. Ladies and gentlemen if you wish to participate in our written Q&A please type your question Into Ask a Question text area. Then click the submit button. Thank you for holding.

Omar Bouhafis:

The first question have, we have is three parts. 1) Loan growth seems to have slowed down quarter on quarter in Q3. Please share your thoughts and the outlook for the full year. 2) Impairment charges have been higher year on year in both Q1 and Q2 but seem to have declined in Q3. Please explain. 3) What is the proportion of CASA deposits?

Noel Cherian: We have 3 questions over here. Regarding loan growth we see that the growth over the 3 quarters is more or less consistent of course there are some seasonality's throughout the period. But moving forward we see same trend. Now coming to second question on impairment charges, we see that it is more consistent throughout the 3 quarters and we do not expect any major variation during the next 3 months. The last question on CASA ratio; our current CASA deposit is around 27%

Omar Bouhaf: Ok our next question is: Boubyan is growing loans faster than competition. What explains the market share increase and which sectors is the bank lending into?

Abdullah Tuwajri: Boubyan is still in the growth phase as we see in the numbers. We are benefiting from the growing franchise name of Boubyan Bank and the expansion in our network in retail as well as starting new relationships with mid and large corporate clients as well as in corporate we participated in some mega corporate loans for government and shared syndicated loans but this is a result of the growing franchise of Boubyan. The growth has happened equally between corporate and retail YoY 12% for both sectors.

Omar Bouhaf: Ok our next question is three parts: Which sectors drove loan growth in Q3 and what is your growth guidance for FY 18e and FY 19e? How do you see growth prospects in retail and corporate in Kuwait? What is your outlook on margin as you continue to win market share as competition typically eats into yields? CoR remains stable despite loan growth and retail focus, could you throw some colour on asset quality outlook for Boubyan and for the sector in general?

Noel Cherian: With regard to the first question on loan growth I presume Mr. Abdullah has already answered that question. Regarding growth guidance for FY18e we expect the similar growth of the last 3 quarters and regarding the growth prospects in retail and corporate for 2019 also we don't expect something significantly different from 2018 growth.

Outlook for margin. As of now we operate at a margin of around 3% to 3.1% and we expect this to continue moving forward and we don't see a significant decrease in margin for the coming periods.

And so far our pricing has not been affected in spite of market competition and because of that we are able to maintain our margins at around 3.1%

The main reason for cost of risk to remain stable is we ensure we book high quality assets and we aim to maintain our NPL ratio below

1% and we are cautious in booking new assets in our books and that is the main reason that CoR remain stable throughout the period.

Omar Bouhafis: Ok our next question is how did your net interest margins react to rise in CBK rates?

Noel Cherian: As mentioned during my presentation our yield has gone up by 35 bps and our cost of funds have gone up by 25 bps YoY. So this effectively has resulted in a net increase in our net profit margin by 10 bps.

Omar Bouhafis: Our next question is what is your target Return on equity in 5 years' time?

Noel Cherian: We would like to operate at a return of equity of around 12% to 14%.

Omar Bouhafis: Our next question is where do you see the interest rate spread between loans and deposits in light of the pegged currency, the higher US rates, and the CBK's reluctance to raise local interest rates?

Noel Cherian: We usually manage the duration of our portfolio both assets and liabilities to avoid major fluctuations in our net profit margin due to the movement in market rates. With the exception of Consumer portfolio, almost all our corporate book reprices within 3 to 6 months. To tackle the issue of one side interest rate increase we are also gradually increasing our CASA which is also expected to reduce the cost of funds. Also our Sukuk investments have helped in managing our net profit margin. As mentioned earlier we believe we can manage the Net profit margin in the range of 3% to 3.1%.

Omar Bouhafis: So given there are no further questions remaining, so we'd like to thank you all for your attendance today and remind you that should you wish to ask any follow up questions you may do so via the investor relations email address listed on our website. Thank you.

Boubyan Bank Investors Presentation

Q3 2018 Results – Analyst Call

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1 Boubyan's Performance & Strategy – At a glance

2 Income statement analysis

3 Balance sheet analysis

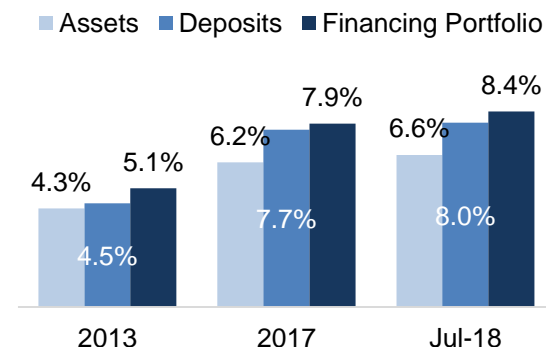
4 Capital ratios

Financial Highlights

Financial snapshot

<i>KD million</i>	9M 2018	9M 2017	Growth %
Net Profit to shareholders	40.3	34.1	18%
Operating Income	104.9	91.5	15%
Operating Profit	63.4	53.5	18%
Total Assets	4,253	3,830	11%
Financing Portfolio	3,193	2,848	12%
Customer Deposits	3,589	3,298	9%
Earnings per share (Fils)	15.8	13.2	20%
Book value per share (Fils)	166	153	9%

Market share



Key Financial Metrics

	9M 2018	9M 2017	Variance
Return on Average Equity (%)	12.7	11.4	1.3
Return on Average Assets (%)	1.3	1.2	0.1
Cost to Income (%)	39.6	41.5	(0.9)
NPL Ratio (%)	0.8	0.6	0.2
Capital Adequacy Ratio (%)	18.4	19.7	(1.3)

Credit Ratings

Rating Agency	Long Term Rating	Outlook	Date
MOODY'S	A3	Stable	Feb 2018
FitchRatings	A+	Stable	Dec 2017

The Bank's strategy builds on robust domestic foundations

Strategic objectives

**Scale up the
core domestic
business**

Retail banking

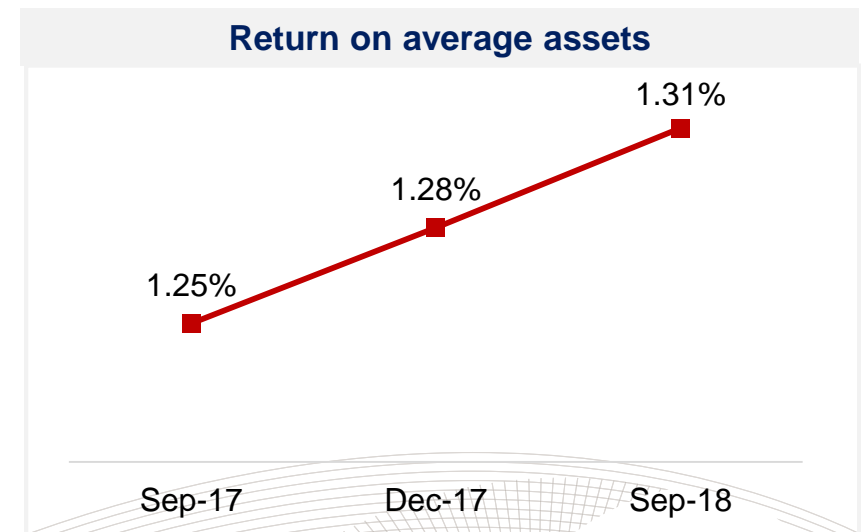
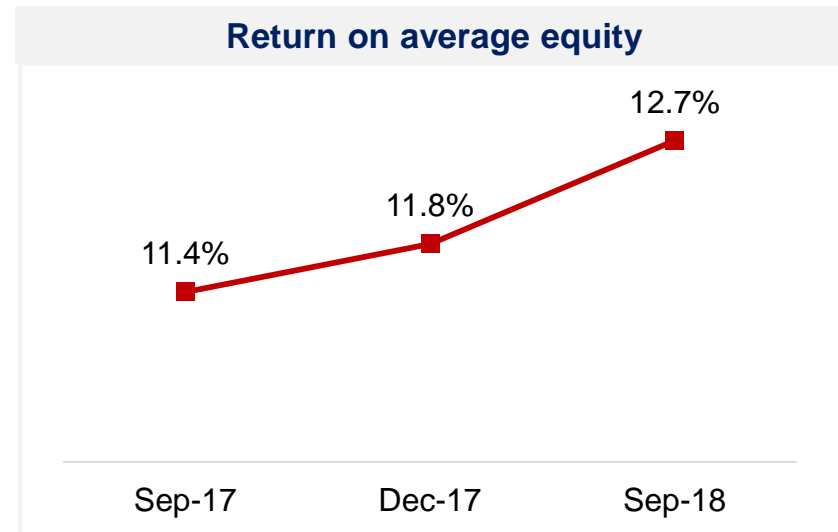
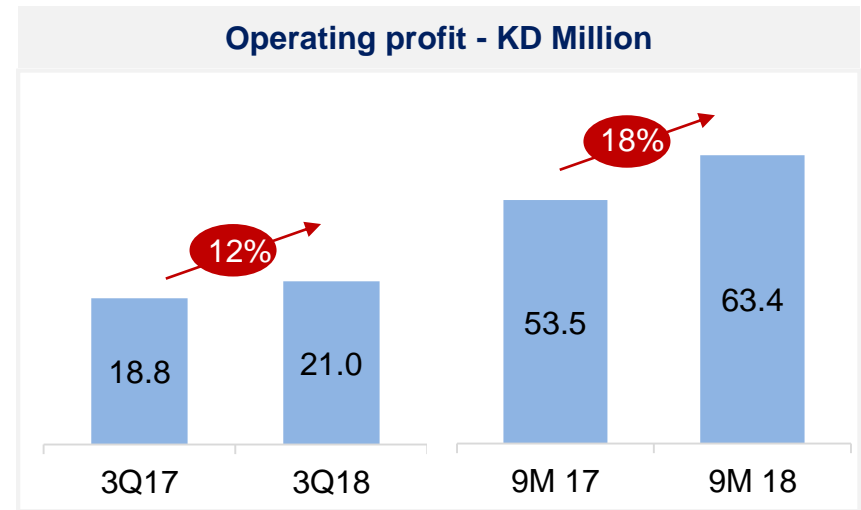
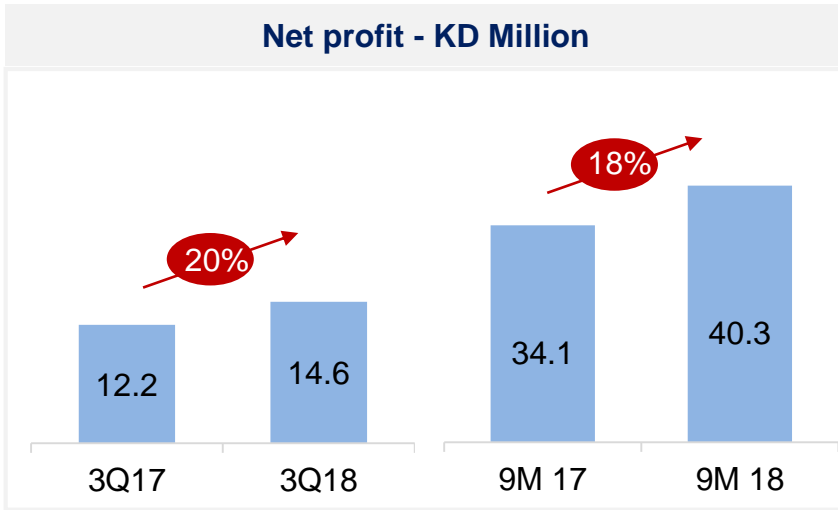
- Clear focus on high net worth and affluent clients
 - Expand branch footprint
 - Maintain leadership in customer experience
 - Product and channel innovation
 - Grow market share
-

Corporate banking

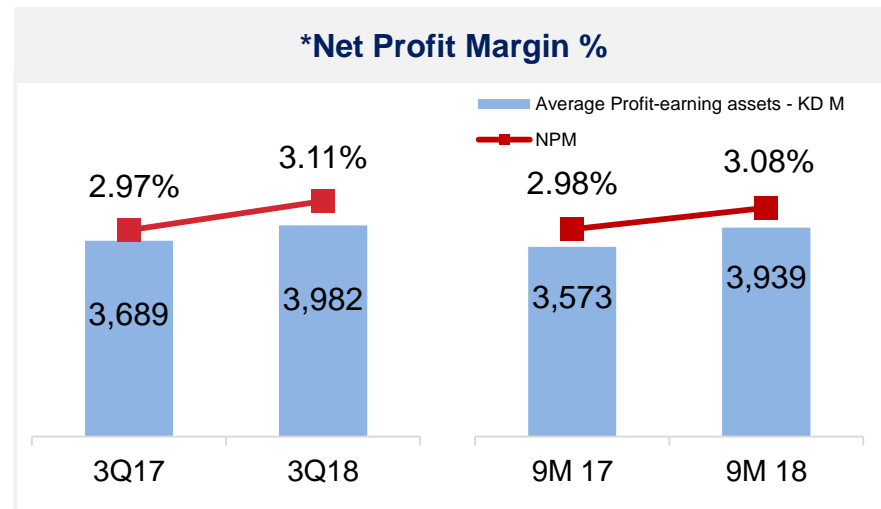
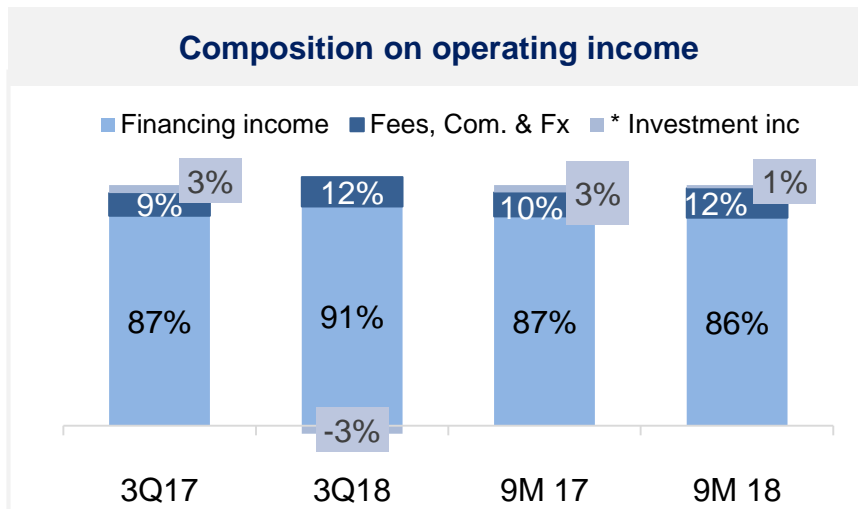
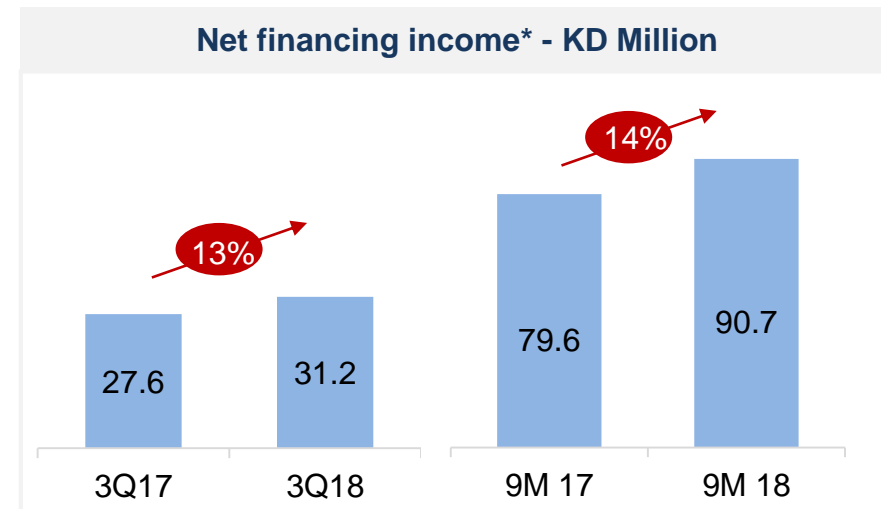
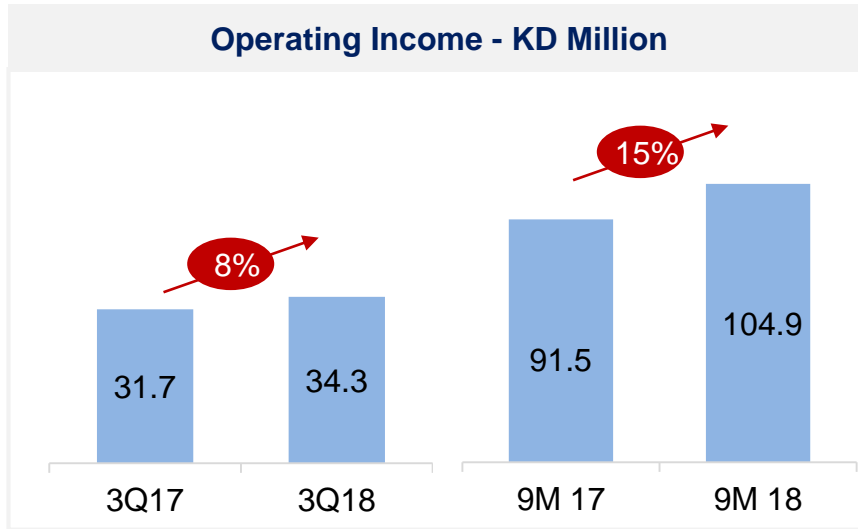
- Primary banker for large and mid-market customers
 - Maintain fair share with super large corporate
 - Superior service (speed & quality)
 - Product and channel innovation
-

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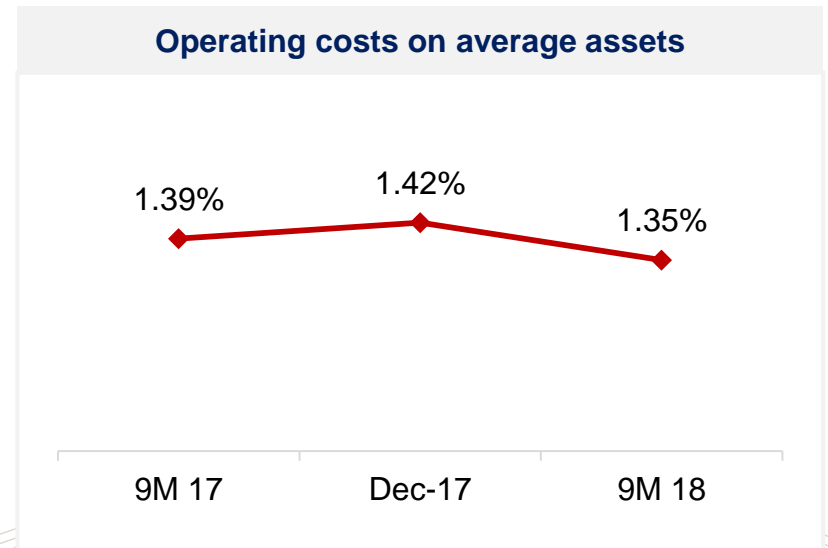
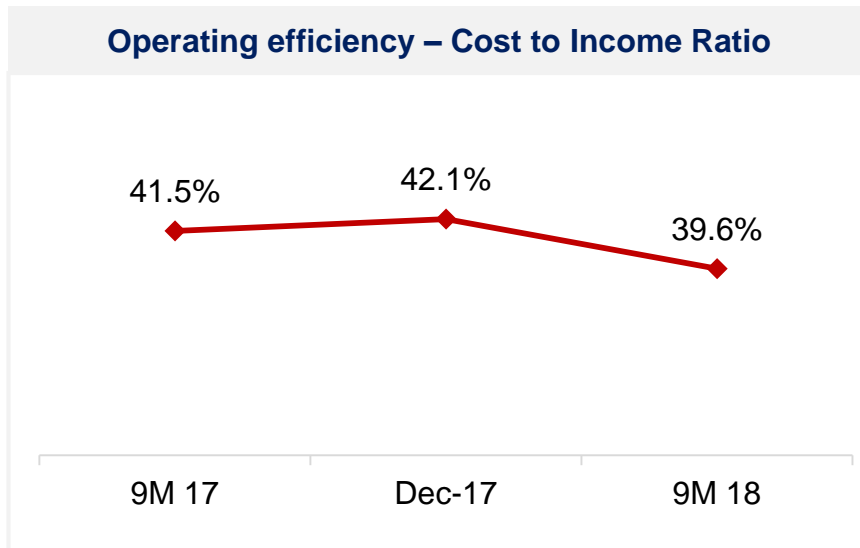
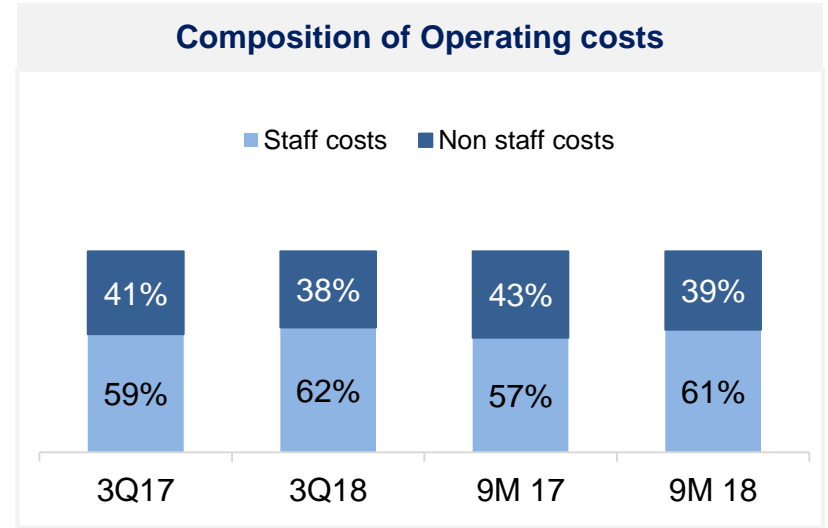
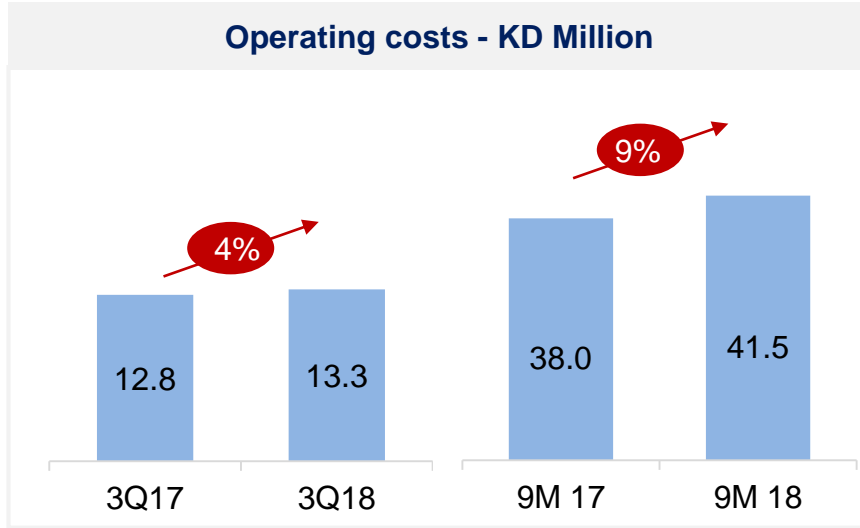
Profitability and performance ratio



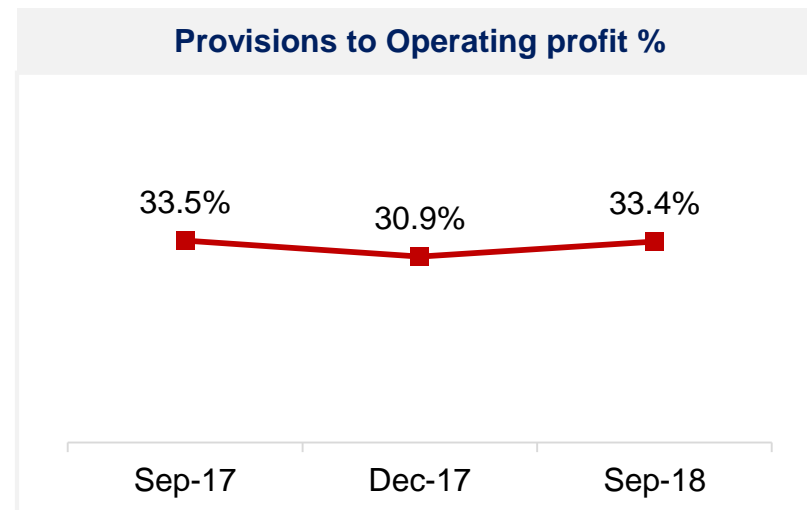
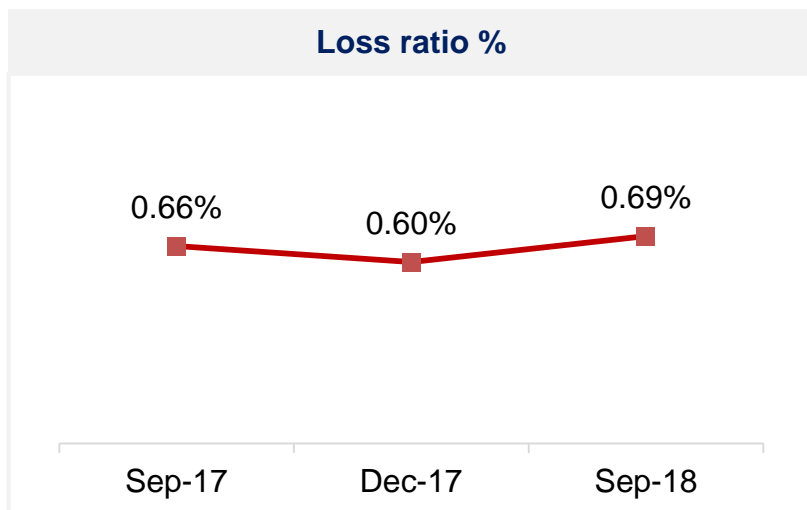
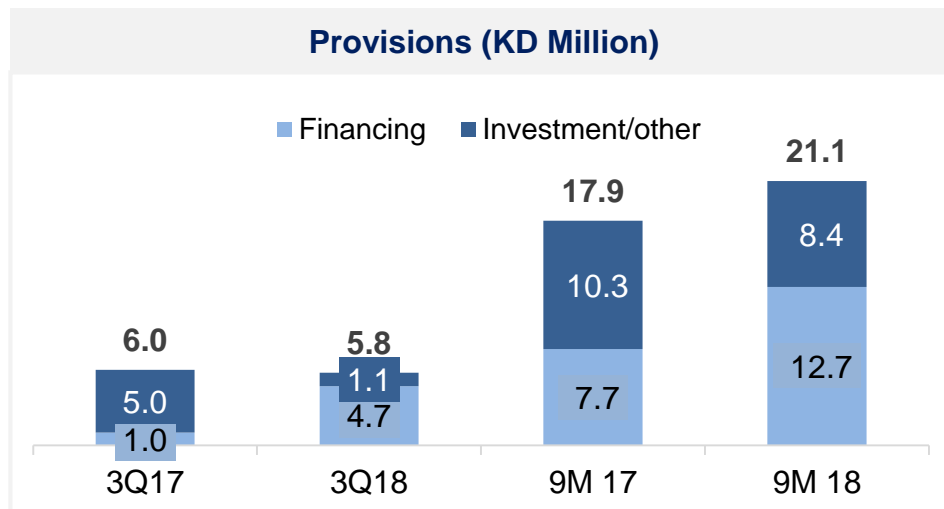
Operating income components



Operating costs and efficiency



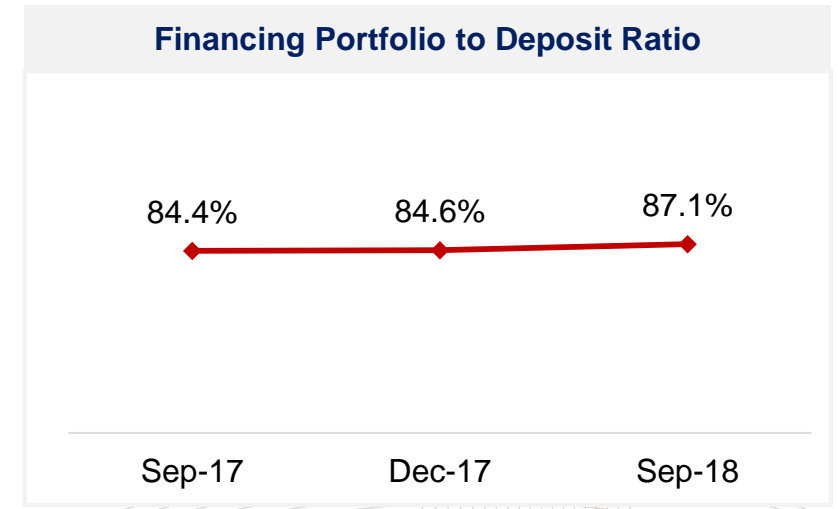
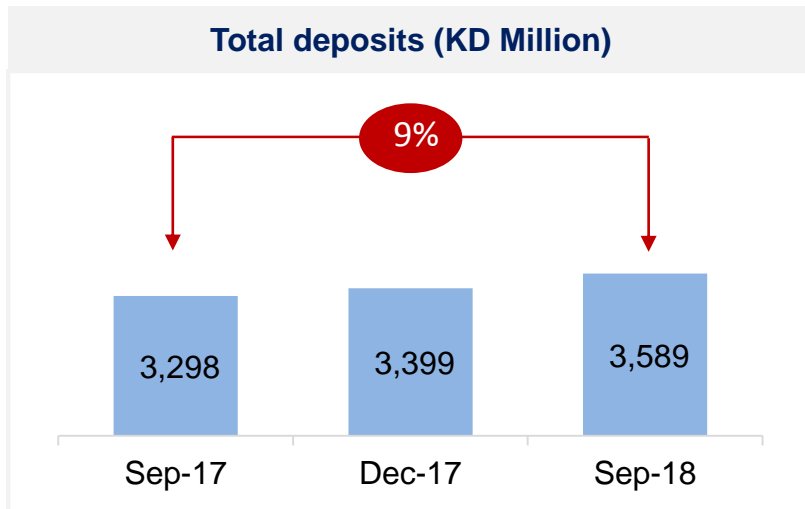
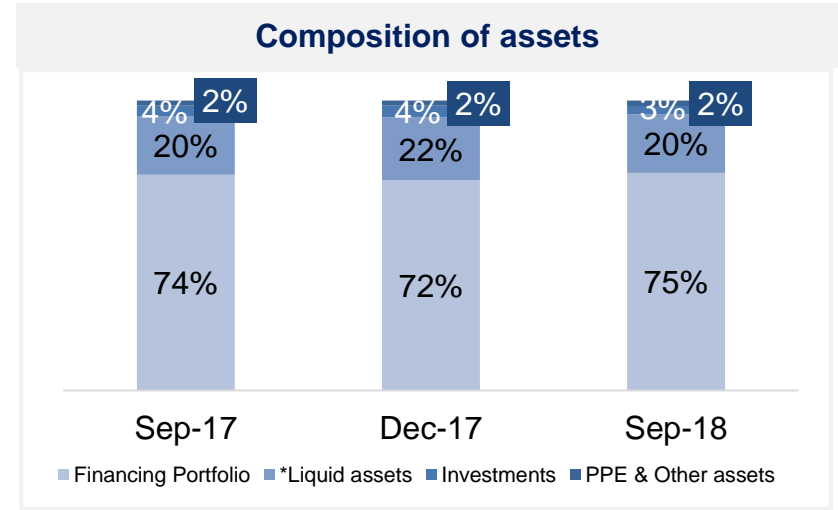
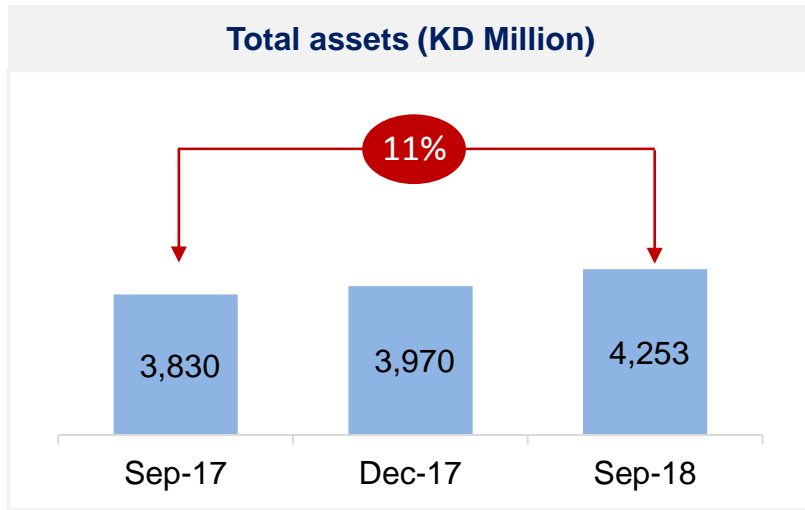
Provisions and related ratios



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- 1 Boubyan's Performance & Strategy – At a glance
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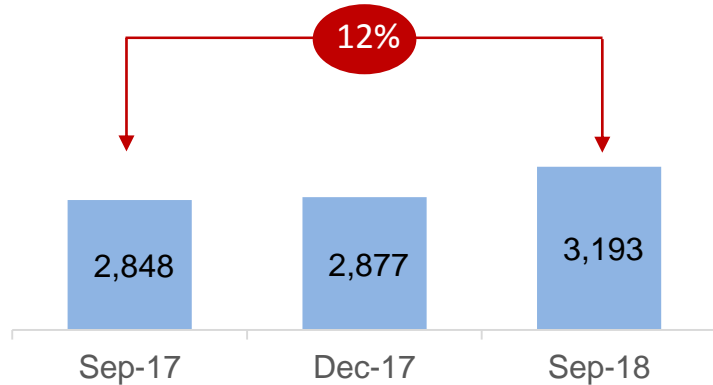
Assets and Sources of Funding



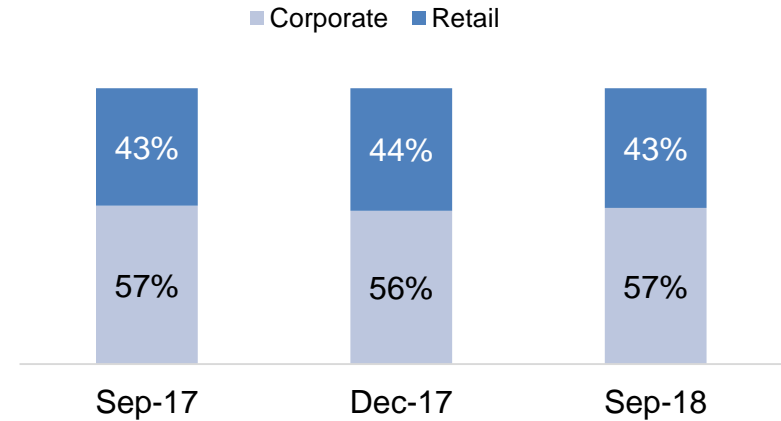
* Liquid assets include cash and balances with banks, Deposits with CBK, Deposits with other banks and Sukuk Investments
Source: Financial statements, Boubyan analysis

Financing Portfolio and asset quality

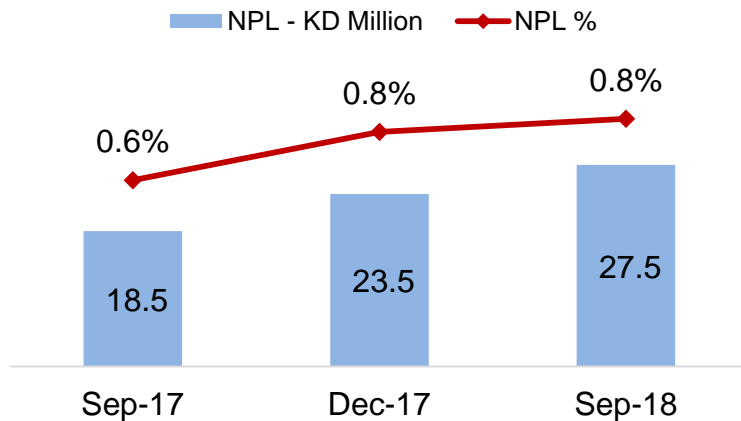
Financing Portfolio – KD Million



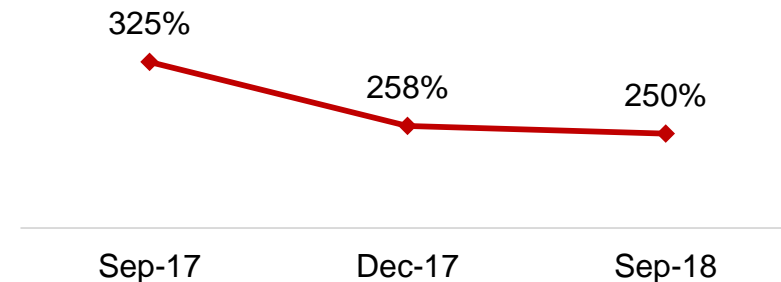
Composition of Financing Portfolio



Non performing Financing Portfolio



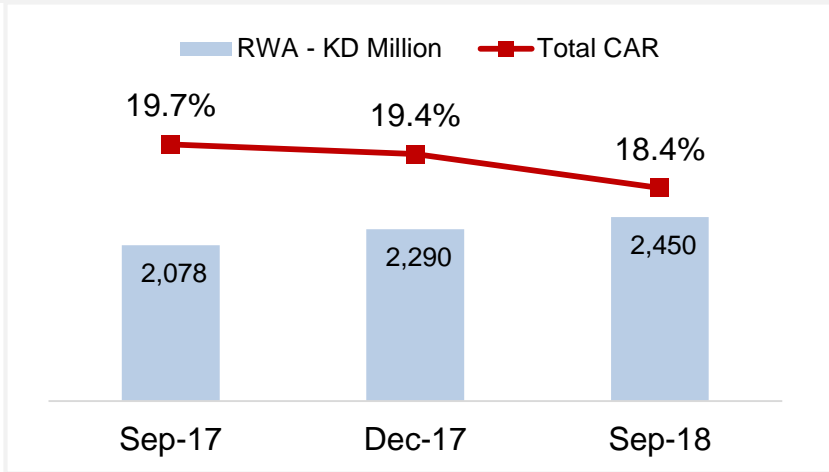
Loss Coverage ratio



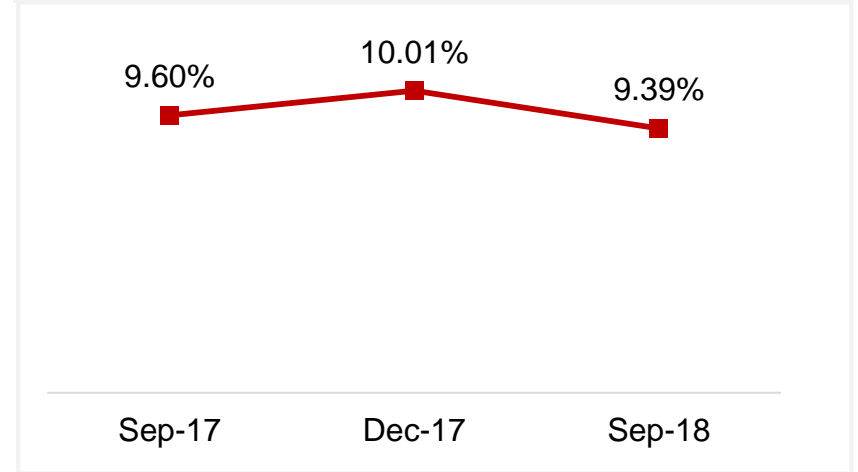
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Capital ratios

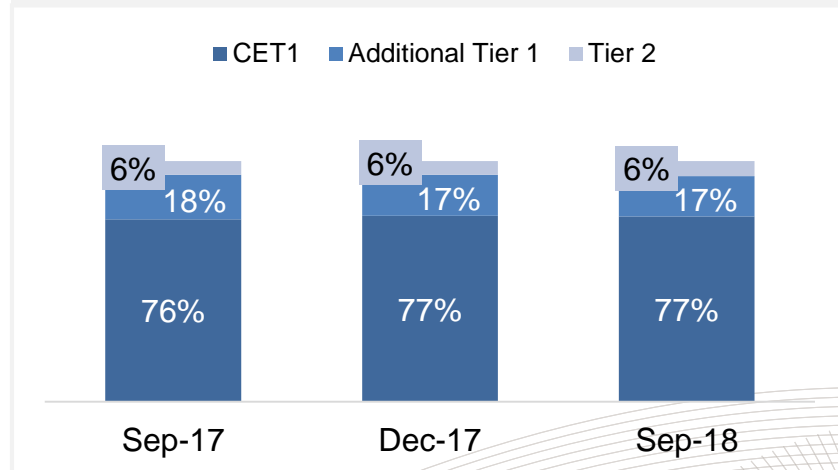
Capital adequacy ratio



Leverage ratio



Composition of regulatory capital



Questions ?

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Appendix

Consolidated Financial Statements – 9M 2018

CONSOLIDATED STATEMENT OF INCOME KD Million	30-Sep 2018	30-Sep 2017
Income		
Islamic financing income	128.4	109.9
Financing cost	(43.8)	(33.1)
Net finance income	84.7	76.9
Net investment income	6.1	5.3
Net fees and commissions income	10.6	7.4
Share of results of associates	1.4	0.3
Net foreign exchange gain	2.2	1.8
Other income	0.0	-
Operating Income	104.9	91.5
Expenses		
Staff cost	(25.3)	(23.0)
General and administrative expenses	(13.0)	(12.2)
Depreciation and amortization	(3.2)	(2.8)
Total Expenses	(41.5)	(38.0)
Profit before provision for impairment	63.4	53.5
Provision for impairment	(21.2)	(17.9)
Profit before taxes	42.2	35.6
Taxes	(1.8)	(1.6)
Non-Controlling Interests	(0.1)	0.1
Net Profit for the year	40.3	34.1

CONSOLIDATED STATEMENT OF FINANCIAL POSITION KD Million	30-Sep 2018	30-Sep 2017
Assets		
Cash and balances with banks	77	37
Deposits with Central Bank of Kuwait	264	299
Deposits with other banks	209	291
Islamic financing to customers	3,193	2,848
Fair value through profit or loss investments	36	15
Available for sale investments	337	176
Investments in associates	30	55
Investment properties	28	41
Other assets	24	16
Property and Equipment	55	53
Total Assets	4,253	3,830
Liabilities and Equity		
Liabilities		
Due to banks	142	48
Depositors' accounts	3,589	3,298
Other liabilities	49	42
Total liabilities	3,779	3,387
Equity		
Share capital	239	227
Share premium	63	63
Treasury shares	(1)	(1)
Statutory reserve	19	14
Voluntary reserve	19	14
Share based payment reserve	1	2
Fair value reserve	3	4
Foreign currency translation reserve	(9)	(9)
Accumulated retained earnings / (losses)	61	50
Equity attributable to equity holders of the bank	396	364
Perpetual Tier 1 Sukuk	75	75
Non-controlling interest	2	3
Total equity	474	443
Total liabilities and equity	4,253	3,830

Consolidated Income Statement

KD Million	31-Dec 2017	31-Dec 2016	31-Dec 2015
Income			
Murabaha and other Islamic financing income	149.4	122.7	101.5
Distribution to depositors and Murabaha Cost	(46.0)	(34.2)	(22.1)
Net finance income	103.5	88.5	79.3
Net investment income	7.9	4.4	2.2
Net fees and commissions income	11.1	9.8	7.8
Share of results of associates	0.6	(1.7)	0.3
Net foreign exchange gain	2.5	2.2	1.7
Operating Income	125.6	103.3	91.4
Expenses			
Staff cost	(31.0)	(25.4)	(22.9)
General and administrative expenses	(17.9)	(14.7)	(13.6)
Depreciation and amortization	(3.9)	(3.2)	(2.6)
Total Expenses	(52.9)	(43.4)	(39.2)
Profit before provision for impairment	72.7	59.9	52.2
Provision for impairment	(22.4)	(16.4)	(15.1)
Profit before taxes	50.3	43.5	37.1
Taxes	(2.6)	(2.2)	(1.9)
Non-Controlling Interests	(0.1)	(0.2)	0.0
Net Profit for the year	47.6	41.1	35.2

Consolidated Statement of Financial Position

KD Million	31-Dec 2017	31-Dec 2016	31-Dec 2015
Assets			
Cash and balances with banks	48.5	36.9	35.1
Deposits with Central Bank of Kuwait	310.4	292.7	133.1
Deposits with other banks	323.9	329.0	515.1
Islamic financing to customers	2,876.8	2,516.8	2,171.8
Financial assets at fair value through profit or loss	13.1	19.5	15.4
Available for sale investments	220.2	160.3	126.3
Investments in associates	53.0	62.2	79.7
Investment properties	53.6	24.7	23.4
Other assets	16.6	13.9	14.2
Property and Equipment	54.4	25.8	18.8
Total Assets	3,970.4	3,481.8	3,132.9
Liabilities and Equity			
Liabilities			
Due to banks	67.5	76.3	382.7
Depositors' accounts	3,398.8	2,945.1	2,398.9
Other liabilities	51.8	37.3	30.4
Total liabilities	3,518.0	3,058.7	2,812.1
Equity			
Share capital	227.5	216.6	206.3
Share premium	62.9	62.9	62.9
Proposed bonus share	11.4	10.8	10.3
Treasury shares	(1.1)	(1.4)	(0.6)
Statutory reserve	19.3	14.3	10.0
Voluntary reserve	18.5	13.7	9.6
Share based payment reserve	1.7	1.5	1.2
Fair value reserve	3.9	3.7	4.2
Foreign currency translation reserve	(9.3)	(9.1)	(9.3)
Accumulated retained earnings / (losses)	24.1	18.9	13.3
Proposed cash dividends	15.9	13.0	10.3
Equity attributable to equity holders of the bank	374.8	345.0	318.2
Perpetual Tier 1 Sukuk	75.4	75.4	0.0
Non-controlling interest	2.2	2.8	2.6
Total equity	452.4	423.2	320.8
Total liabilities and equity	3,970.4	3,481.8	3,132.9

Thank you

نعمل بآتقان